



**PASSIONATE . DETERMINED . RELENTLESS**



**SARVODAYA DEVELOPMENT FINANCE PLC**  
ANNUAL REPORT 2021/22





## **PASSIONATE . DETERMINED . RELENTLESS**

It's all about attitude and it has been indispensable in helping us endure the challenges of the year.

While the economy faced hardship in the year under review due to internal and external circumstances, we undertook prudent strategies while keeping in check, our commitment to revitalising our team, our customers and the nation. We worked hard in identifying and supporting the dreams of individuals and communities and continued to extend our helping hand every step of the way.

This year, especially, we recognise the passion and courage of our female entrepreneurs who have been trailblazers in their communities and make up 57% of our clientele. Over the years they have proven their integrity, reliability, and their ability to take responsibility in their chosen fields. They are **PASSIONATE, DETERMINED** and **RELENTLESS** in their will to succeed. Having helped strengthen their courageous spirit, we are proud to have partnered their journey as well as many others as we continue to kindle the flames of these ideals within our company and the nation.



# PASSIONATELY SHE PERFORMS...

## GROWING SHIITAKE MUSHROOMS FOR EXPORT MARKET

Milani Sanjeevani Perera lives in Divulapitiya, in the Gampaha district. Her specialization is in Growing Shiitake Mushrooms. She started the business about 15 years ago. She currently exports part of her produce whilst supplying the rest to star class hotels in Colombo and suburbs. She says she is unable to cope with the rising demand.

In addition to her own production, she purchases mushroom from nearly 100 other farmers in the area. She has offered training to thousands of women, including Ex LTTE cadres and war victims from the North and East as a part of a rehabilitation program.

She is in the process of exporting these mushrooms to Japan as the next phase of growth. SDF remains her financing institution in her business journey.



SCAN FOR MORE..





# DETERMINEDLY SHE PERFORMS...

## MANGALESHWARI OF JAFFNA FINDS SUCCESS IN TRADITIONAL SWEETMEATS

Northern Jaffna peninsula's sweetmeats are a unique feature of its cuisine. However, female entrepreneur Mangaleshwari's loan application to established banks was rejected several times.

It was the Sarvodaya movement Kalaivani society that granted her credit to establish and grow the business from scratch. She now employs three people in manufacture and distribution, as a regular sweetmeats supplier to several outlets and offices in the area. With a high confidence level, Mangaleshwari hopes to now diversify and grow her business.



SCAN FOR MORE..





# COURAGEOUSLY SHE PERFORMS...

## MECHANIZED HARVESTERS FOR RURAL FIELDS

Nandawathi from the village of Uhana Kumarigama started her agriculture-driven services running a single tractor a few years ago. However, she lacked a proper bank account and transaction history. Thus the financial sector considered her a poor credit quality client.

Her determination and hard work convinced SDF to grant her a loan facility to purchase her first harvester machine a few years ago which she rented out to farms. Having realized that mechanization is the ideal solution for agriculture's emerging labour shortage she expanded her portfolio of agricultural equipment and machinery. She has 4 tractors now along with 3 harvester machines all leased out from Sarvodaya Development Finance. She currently services many farmlands in the areas of Uva & Ampara regions.



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# CHEERFULLY SHE PERFORMS...

## FLOUR PROCESSING & RICE MILLING BUSINESS IN AMPARA

Sunitha, from Kognahara village in Ampara started a small rice sorter about 20 years ago. She became a SDF client few years ago when we reached out to her to facilitate a purchase of a high quality fully automated rice mill. Today she is one of the key rice millers in Ampara. She has also expanded her business into the distribution of rice around her vicinity and has started a flour processing & milling business lately. With her high confidence level she will soon start a coconut oil business in parallel to this.





# RELENTLESSLY SHE PERFORMS...

## AQUATIC PLANTS BREEDER TURNED ONLINE DISTRIBUTOR

Hansini from Anuradhapura's Sucharathagama, always wanted to start a business that was different from the usual. Her love for flowers naturally motivated her to think of growing water-based plants. Sarvodaya Development Finance assisted her with the required funding to start her aquatic plant breeding facility. She now is a leading supplier of many variants of aquatic plants and even supplies intermediary vendors of such plants. Most of her sales are now done online. She is now determined to scale up her business in a significant way.



SCAN FOR MORE..



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## Our Profile

Incorporated in 2010, Sarvodaya Development Finance Limited (SDF/Company) has evolved from a deep rooted commitment to nation building and development along with the 'grass roots upwards' model of the Sarvodaya Movement. Over its short span of existence, SDF has carved out a niche for itself as a leading financial institute offering tech-savvy financial services via a diverse product range to fulfil the financial needs of the customers.

The Sarvodaya movement having started in 1958 is one of the oldest Non-Governmental Organisations ("NGO") in Sri Lanka and has been uplifting and empowering rural masses for over six decades. SDF has evolved by capitalising on the unique Sarvodaya brand recognition and widespread network of solid relationships to cater to the needs of the Micro, Small and Medium Enterprises (MSMEs) in Sri Lanka. The linkages with Sarvodaya Societies, together with the strategic investments in modern ICT, enabled SDF to reach out to grassroots rural entrepreneurs. SDF's business focus is to fuel economic growth by channelling credit, and other support services, for environmentally friendly, sustainable business models across the country that contribute towards environmental conservation, while also facilitating quality of life improvements for communities as a whole.

In its role as a financial services provider, SDF's values for sustainable businesses are essential for the growth and prosperity of Sri Lanka's economy. SDF has developed and delivered value-added services in tandem with its specialised financial products, to assist MSMEs to develop markets and business opportunities, including technical training programs and special market development events. SDF has been recognised for its relentless endeavour by being named as the "fastest growing development finance company in Sri Lanka", at the UK based Global Banking and Finance Review Awards in 2021.

The Company issued 45,454,546 shares during the financial year 2021/22 as a IPO and listed in the Colombo Stock Exchange with effect from 14 December 2021. Pursuant to the listing of the Company's shares on the Main Board of the Colombo Stock Exchange the status of the Company has changed, with effect from 6 January 2022, to Sarvodaya Development Finance PLC.

## Our Vision

To be a Catalyst in Creating an Economically Progressive Society, Living in Dignity

## Our Mission

To Foster Sustainable Development Through the Provision of Ethical Financial Services and Fulfil Expectations of all Stakeholders

## Our Values

- ⦿ Purity in Service
- ⦿ Diligent and Caring
- ⦿ Transparent and Honest
- ⦿ Passionately Committed

# ABOUT THIS REPORT

The financial year 2021/22 marked a historic juncture for Sarvodaya Development Finance PLC (SDF). From small beginnings as an entity set up by the *Lanka Jathika Sarvodaya Sharmadana Sangamaya*, to disburse small funds in the form of micro credit for rural communities, SDF has evolved into a public quoted company, listed on the Main Board of the Colombo Stock Exchange.

What is even more significant is that SDF is the only ‘**Impact Investment**’ company listed in the Colombo Stock Exchange. This means SDF attracts a rare breed of investors from across the globe, who seek not only financial returns from investments, but also require positive impacts on communities and environments, through their investments.

Our Initial Public Offering on 23rd November 2021 was oversubscribed on the opening day, and raised LKR 1 Bn, indicating the level of interest in the impact investment business model, which is rooted in the Sarvodaya philosophy of empowering rural communities.

This annual report is the first public document which records how we have honoured our commitment as an impact investment company, to investors and other stakeholders. Therefore, in addition to the statutory reporting requirements of a public quoted Company, the objectives of the SDF Annual Report 2021/22, are:

1. To record the wider impacts of business operations by voluntarily adopting Environmental Social Governance (ESG) reporting. The GRI Standards 2021 have been used to guide us in this respect.
2. To disclose material information regarding our capitals. The Integrated Reporting (IR) Framework 2013 has been used for this purpose.
3. To assist the Company enhance positive impacts of its activities, while identifying and minimising any negative impacts.

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**PROVISION ON FUTURISTIC DISCLOSURES**  
PLEASE NOTE THAT ALL FORWARD-LOOKING PLANS AND ACTIVITIES OUTLINED IN THIS REPORT ARE CONTINGENT ON MACRO ENVIRONMENTAL CONDITIONS WITHIN & WITHOUT SRI LANKA & MAY BE SUBJECT TO CHANGE WITHOUT PRIOR NOTICE.

## THE COMPLIANCE FRAMEWORK OF THIS REPORT

### Financial Reporting

- Sri Lanka Financial Reporting Standards ( SLFRSs) and Sri Lanka Accounting Standards (LKASs) of the Institute of Chartered Accountants of Sri Lanka
- Companies Act No. 07 of 2007
- Finance Business Act No. 42 of 2011



### Corporate Governance Reporting

- Finance Companies (Corporate Governance) Direction No. 3 of 2008, issued by the Monetary Board of the Central Bank of Sri Lanka and subsequent amendments thereto
- Listing rules of the Colombo Stock Exchange
- Code of Best Practice on Corporate Governance 2017, issued by the Institute of Chartered Accountants of Sri Lanka
- Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021 and subsequent amendments thereto



### Assurance

- Sri Lanka Auditing Standards (SLAuSs)
- Sri Lanka Standard on Assurance Engagements (SLSAE) 3000; Assurance Engagements other than Audits or Review of Historical Financial Information, issued by CA Sri Lanka



We have voluntarily adopted ESG reporting guidelines, in addition to the above statutory reporting guidelines.

GRI disclosure	Response
GRI 2-2: Entities included in this report	All entities in this report are those included in the audited financial statements presented in this report.
GRI 2-3 :Reporting period and frequency	This report covers the 12-month period 1st April, 2021 to 31st March 2022 and will be continued as an annual reporting activity.
GRI 2-3: Accessing this report and feedback	This report can be downloaded from our website <a href="http://www.sarvodayafinance.lk">http://www.sarvodayafinance.lk</a> , which is also mobile phone enabled, or please scan the QR code to be directed to the page.  Please send your feedback on this report to: Head of Finance Sarvodaya Development Finance PLC No: 155/ A, Dr. Danister De Silva Mawatha Colombo 08 Sri Lanka. Tel: +94 115 444 666
GRI 2-4: Restatement of information	There has been no requirement for restatement of any information from our previous annual report.
GRI 2-5 : External assurance	The financial statements presented in this report have received assurance from our external auditors, Messrs. Ernst & Young (Chartered Accountants)  The ESG/GRI and IR components of this report have received external assurance from Messrs. Ernst & Young (Chartered Accountants).

## SUSTAINABLE DEVELOPMENT GOALS



[www.sarvodayafinance.lk](http://www.sarvodayafinance.lk)



# OUR JOURNEY

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- Registered as a Public Limited Company by the name of Deshodaya Development Finance Company Limited



- Received the **finance licence from the Central Bank** to commence finance business



- Acquired the assets and liabilities of the Micro Finance Division of the Parent Company
- Commenced finance business with a range of new lending and deposit products

- Joined LankaClear and connected to over **4,000 ATMs** through LankaPay platform
- Introduced Business Intelligence (BI) technology
- Received a Silver Award (under LKR. 20 Bn assets category) from CA Sri Lanka for our Annual Report for the 2nd consecutive year



- Acquired **75.54%** of George Steuart Finance PLC under the Central Bank's Consolidation Programme
- Changed the Company's name to **Sarvodaya Development Finance Limited**
- Enhanced the share capital by LKR 340 Mn
- Received a certificate of compliance from **CA Sri Lanka for our Annual Report 2015**



- Introduced a fully-integrated, centralised and a real-time core-banking system for all our business operations
- Rationalised the branch network by **re-branding and relocating branches**



- Introduced Western Union for money transfers
- Introduced mCash for loan collection
- Diversified business strategy from micro finance, to assets-backed lending by introducing leasing and SME loans

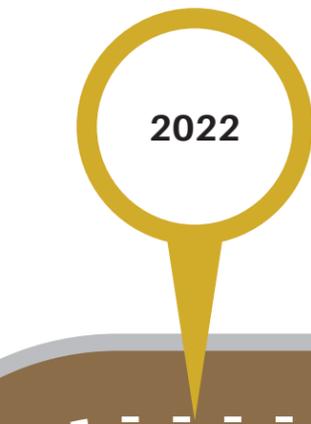
- Shifted Head Office to **Colombo** for greater visibility, customer acceptance and brand positioning
- Installed our first ATM
- Commenced digital content marketing and penetration into social media



- Received a **Gold Award (under LKR 20 Bn assets category)** from **CA Sri Lanka for our Annual Report**
- Achieved a milestone profit target of LKR 100 Mn**
- Introduced smart POS machines to facilitate customers loan instalment and utility bill payments
- Introduced new integrated workflow management system
- Embarked on digital marketing



- Awarded the Fastest Growing Development Finance Company in Sri Lanka 2021** by the Global Banking and Finance Review - UK.
- Raised new share capital of LKR 806 Mn from private placement



- Raised **LKR 1 Bn** from IPO on November 23rd 2021 and listed in the Main Board of the Colombo Stock Exchange on December 14th 2021
- Converted 21 customer Service centres in to branches
- Staff strengths over **500**
- Introduced ESG (GRI Standards) to the Annual Report
- Introduced common Electronic Fund Transfer Switch



# FINANCIAL HIGHLIGHTS

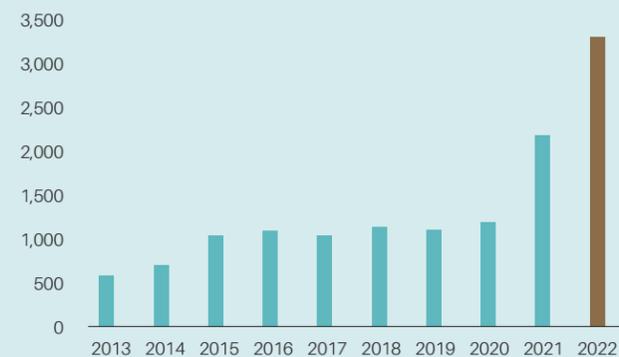
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Financial Highlights	2021/22	2020/21	Change %
<b>Profitability (LKR 000)</b>			
Income	1,930,409	1,743,539	10.7%
Interest Income	1,822,315	1,584,745	15.0%
Net Interest Income	1,260,199	961,398	31.1%
Operating Expenses	800,411	703,903	13.7%
Impairment Losses	192,619	60,092	220.5%
Profit Before Taxation	375,264	356,197	5.4%
Profit for the Year	215,466	183,357	17.5%
<b>Assets &amp; Liability (LKR 000)</b>			
Loans and Receivables	5,110,595	4,954,331	3.2%
Lease Rentals Receivables	4,768,167	2,952,368	61.5%
Total Assets	11,174,484	9,036,598	23.7%
Due to Customers	4,729,097	4,551,945	3.9%
Total Shareholders' Funds	3,304,795	2,181,383	51.5%
<b>Investor Information (LKR)</b>			
Net Assets Value per Share	22.09	21.43	3.1%
Earnings per Share - Basic	1.86	2.55	-27.2%
Market Price per share	12.50	N/A	N/A
Market capitalisation (LKR 000)	807,179	N/A	N/A
Price earning ratio (P/E)	6.74	N/A	N/A
<b>Financial Indicators (%)</b>			
Return on Assets (after tax)	2.13%	2.13%	0.3%
Return on Equity (after tax)	7.85%	10.86%	-27.7%
Cost to Income	66.28%	70.82%	-6.4%
Gross NPA Ratio	8.93%	9.98%	-10.5%
Net NPA Ratio	3.31%	4.21%	-21.4%
<b>Growth in Total Assets</b>			
	23.66%	10.27%	130.4%
<b>Capital Adequacy Ratios (%)</b>			
Core capital to risk weighted assets ratio (Tier I) (Minimum 7%)	29.17%	12.99%	124.6%
Total risk weighted capital ratio (Tier I&II) (Minimum 11%)	30.42%	13.23%	129.9%
Equity to deposits (Minimum 10%) %	69.88%	47.92%	45.8%
Liquidity ratio	10.51%	9.13%	15.2%

## Profit / (Loss) for the Year (PAT) (LKR 000)

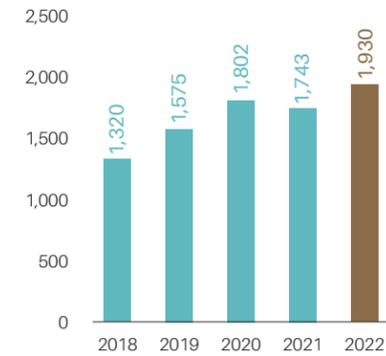


## Total Shareholders' Funds (LKR Mn)

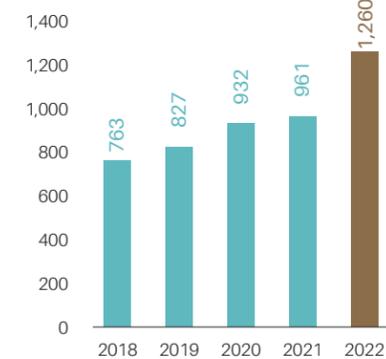


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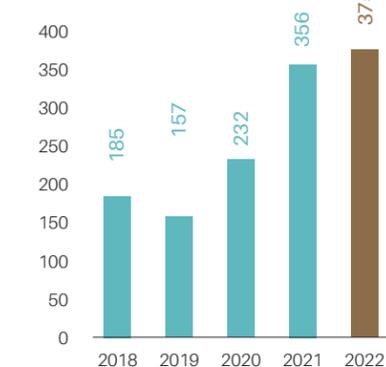
## Income (LKR Mn)



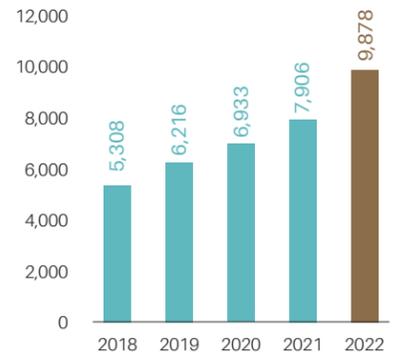
## Net Interest Income (LKR Mn)



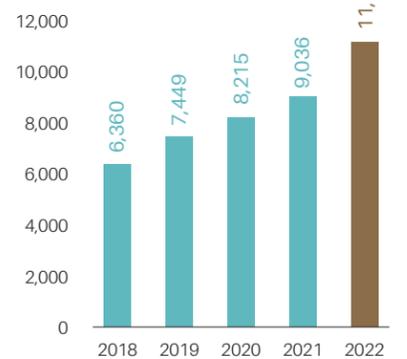
## Profit Before Taxation (LKR Mn)



## Loans and Receivables (LKR Mn)



## Total Assets (LKR Mn)



## Return on Assets (ROA) (%)



31.1% ↑  
LKR **1.26** Bn  
**NET INTEREST INCOME**

17.5% ↑  
LKR **215** Mn  
**PROFIT FOR THE YEAR**

23.7% ↑  
LKR **11.17** Bn  
**TOTAL ASSETS**

3.1% ↑  
LKR **22.09**  
**NET ASSETS VALUE PER SHARE**

51.5% ↑  
LKR **3.30** Bn  
**TOTAL SHAREHOLDER FUNDS**

↓(10.5)%  
**8.93** %  
**GROSS NPA RATIO**

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## Economic Value Created

2021/22 **1,930** LKR Mn

2020/21 **1,744** LKR Mn

2019/20 **1,802** LKR Mn

### Distributed to



#### Finance Capital

**562** LKR Mn  
2021/22   
Depositors & Lenders

2020/21 **623** LKR Mn  
2021/22   
2019/20 **750** LKR Mn

**440** LKR Mn  
2021/22   
Employees

2020/21 **382** LKR Mn  
2021/22   
2019/20 **363** LKR Mn

**150** LKR Mn  
2021/22   
Government

2020/21 **99** LKR Mn  
2021/22   
2019/20 **125** LKR Mn

**547** LKR Mn  
2021/22   
Suppliers

2020/21 **471** LKR Mn  
2021/22   
2019/20 **467** LKR Mn

**221** LKR Mn  
2021/22   
Retained

2020/21 **168** LKR Mn  
2021/22   
2019/20 **97** LKR Mn



#### Manufactured Capital

**51** Nos  
2021/22   
Branches

2020/21 **30** Nos  
2021/22   
2019/20 **30** Nos

**2** Nos  
2021/22   
Branches Upgraded

2020/21 **2** Nos  
2021/22   
2019/20 **1** Nos

**2** Nos  
2021/22   
Branches Relocated

2020/21 **2** Nos  
2021/22   
2019/20 **5** Nos

**14** LKR Mn  
2021/22   
Investment in Fixed Assets

2020/21 **34** LKR Mn  
2021/22   
2019/20 **24** LKR Mn

**321** LKR Mn  
2021/22   
Investment in Right-of-Use Assets

2020/21 **271** LKR Mn  
2021/22   
2019/20 **234** LKR Mn



#### Social & Relationship Capital

**153,238** Nos  
2021/22   
Customer Base

2020/21 **148,700** Nos  
2021/22   
2019/20 **140,057** Nos

**160** LKR Mn  
2021/22   
Revenue to Government

2020/21 **173** LKR Mn  
2021/22   
2019/20 **130** LKR Mn

**2,972** LKR Mn  
2021/22   
Payment to Suppliers

2020/21 **1,961** LKR Mn  
2021/22   
2019/20 **1,930** LKR Mn

**8,074** LKR Mn  
2021/22   
Products Disbursements

2020/21 **3,784** LKR Mn  
2021/22   
2019/20 **3,684** LKR Mn

**78** LKR Mn  
2021/22   
Marketing Initiatives

2020/21 **35** LKR Mn  
2021/22   
2019/20 **24** LKR Mn



#### Human Capital

**508** Nos  
2021/22   
Total Workforce

2020/21 **480** Nos  
2021/22   
2019/20 **471** Nos

**221** Nos  
2021/22   
New Recruitments

2020/21 **167** Nos  
2021/22   
2019/20 **136** Nos

**59** Nos  
2021/22   
Employees Promoted

2020/21 **10** Nos  
2021/22   
2019/20 **14** Nos

**6,711** Hrs  
2021/22   
Employees Trainings

2020/21 **7,119** Hrs  
2021/22   
2019/20 **320** Hrs

**469** LKR '000  
2021/22   
Employees Rewarded

2020/21 **1,500** LKR '000  
2021/22   
2019/20 **500** LKR '000



#### Natural Capital

**539,881** Kwh  
2021/22   
Electricity Usage

2020/21 **562,668** Kwh  
2021/22   
2019/20 **546,648** Kwh

**280** Kwh  
2021/22   
Electricity per Rs. Mn of Revenue

2020/21 **323** Kwh  
2021/22   
2019/20 **303** Kwh

**250,884** Ltr  
2021/22   
Fuel Usage

2020/21 **175,114** Ltr  
2021/22   
2019/20 **127,458** Ltr

**130** Ltr  
2021/22   
Fuel per Rs. Mn of Revenue

2020/21 **100** Ltr  
2021/22   
2019/20 **71** Ltr

**95,283** LKR  
2021/22   
Energy Usage per Employee

2020/21 **77,578** LKR  
2021/22   
2019/20 **67,417** LKR



**With regards to SDF, we have already demonstrated in the current year, the potential that can be unleashed. Our digital transformation will assist us in bringing villages closer within our reach, while enabling continuous oversight.**

## GRI 2-22

### STATEMENT ON SUSTAINABLE DEVELOPMENT STRATEGY

The financial year 2021/22 will be recorded as an exceptional and historic year for SDF. These achievements are primarily due to the dedication and committed efforts of our staff. While appreciating their hard work, I would also like to draw attention to the theme of this year's annual report, which is 'Empowering Women'. This is an acknowledgment that 57% of our total customer base comprise of women. Therefore, I think it is opportune to dedicate our Annual Report 2021-22 to the women of Sri Lanka, and as we enter a new phase of growth, we look forward to empowering women across Sri Lanka to achieve their dreams and aspirations in life.

The highlight of the year was of course, SDF's debut to the Colombo Stock Market. Being the first impact-oriented company to enter the Colombo Stock Exchange is a landmark event, not only for SDF, but also for the stock market and the capital market ecosystem of the country, the broader economy and the social fabric of Sri Lanka. Over 60 years of outstanding legacy established by the Sarvodaya Movement which continues to operate in over 5,000 villages, and Sarvodaya's impeccable brand name, provided a basis and a platform for SDF to enter the Colombo Stock Exchange with great promise and expectation. SDF's origins was a microfinance organisation, started by Dr A. T Ariyaratne, the founder of the Sarvodaya Movement about 30 year ago, with a loan book of LKR 1Mn. The objective was to empower village entrepreneurs, and to date, SDF has kept this vision alive, remaining passionately committed to the belief that village entrepreneur are the core of any sustainable growth for the country's progress. Today, SDF has a loan book of LKR 10.4 Bn and is a public quoted company listed in the Main Board of the Colombo Stock Exchange.

SDF's IPO was oversubscribed in less than 3 hours of the opening day, demonstrating a remarkable level of success and acceptance by the public, raising LKR 1 Bn for 45 Mn ordinary voting shares. The new injection of equity has enhanced SDF's capital position to LKR 3.1 Bn, well above the statutory minimum of LKR 2.5 Bn. SDF's ownership structure now exceeds 2,500 shareholders. Sarvodaya and its affiliates continue to hold majority ownership of over 50% of SDF shares and SDF remains fully committed to the village empowerment principle of our origins.

### SDF-SARVODAYA IMPACT INVESTMENT MODEL

Through this evolution into a public quoted company, the SDF-Sarvodaya impact investment model has created a progressive mechanism to sustainably channel funds into underserved rural economies. The SDF Board of Directors have, on a 'best effort basis,' resolved on an exceptionally high 70% dividend pay-out policy. This means a major portion of SDF's Net Profits of each financial year will be redirected towards strengthening the socio-



## EXCEPTIONAL DIVIDEND PAY-OUT POLICY

economic fabric of our villages, through Sarvodaya activities in villages.

Sarvodaya Societies will utilise the dividends to channel funds into village economies and village entrepreneurs. Therefore, we have created a mainstream microfinance company which is linked to the welfare of rural communities, through high dividend pay-out.

### A RECORD YEAR

As we had already invested in building internal capacity, we were able to reap the benefits of our expanded capital base almost immediately following the IPO, with record growth in business volumes during the last quarter of the financial year. Consequently, SDF recorded the highest profits of its history, exceeding the budgeted profit of LKR 215 Mn, for the financial year 2021/22, demonstrating the Company's potential. In driving this growth, we have continually maintained stringent oversight across our business lines to safeguard against the prevailing macro-economic instability.

### AGE OF TRANSFORMATION

SDF is now in a transformation phase, not only in the context of business growth but also with regards to Governance systems enhancements to comply with regulatory and best practice requirements in transitioning from an unlisted status into a listed status, and to provide the correct guidance to drive our vision within the current unpredictable environment. The Board structure is undergoing changes and we hope to welcome new members onboard to add value to our strategies. However, I must highlight that we are already equipped with all requisite Board Subcommittees, management committees, and risk management and internal control frameworks to facilitate rigorous operational oversight.

### PLANS FOR THE FUTURE

We are carefully monitoring the present situation in the country and will adopt a prudent expansion strategy within the current context. We believe Sri Lanka's strategic geographic positioning in international trade routes and strong diplomatic connections will support a faster macro-economic recovery, under the correct direction.

## CHAIRMAN'S MESSAGE

With regards to SDF, we have already demonstrated in the current year, the potential that can be unleashed. Our digital transformation will assist us in bringing villages closer within our reach, while enabling continuous oversight. We will look at developing value-added products and will introduce hybrid products, which we have not offered in the past. To strengthen village economies, we will support rural entrepreneurs with required skills, technical training, and mentoring support, in order to take their businesses to the next level. The SDF Credit Plus programme will be expanded at village level to provide guidance and direction for village entrepreneurs to enhance their knowledge. Sarvodaya Village Societies will play a key role in linking the organisation to the villages.

A range of strategies will be considered to fuel growth, including venture funds, international credit lines, and connecting with international networks and organisations that are committed to empower rural and marginalised persons. We will also continue to look for impact investors across the globe who are determined to make an impact on society, while also earning fair financial returns.

In the formal financial industry, SDF has a unique business model with 85% of our footprint outside the Western Province, and over 30% of lending directed to the agriculture sector. In addition, the female presence of SDF's customer base positions SDF as a women-empowering micro finance organisation. Our objective is to become the benchmark for microfinance in Sri Lanka and a prominent player in the Asian region. To realise this objective, we will emphasise development of our employees, who will uphold our motto "ආර්ථික, ශක්තිම, රුදාව" (Passionate . Determined . Relentless) at all times. Ensuring leadership in digital technologies and incorporating IT directly across all operational aspects, will be another critical component in the way-forward map of the organisation. Everything SDF does, will have a digital presence and also ability to scale and apply across the organisation.

In conclusion, I take this opportunity to thank Dr A T Ariyaratne for his visionary leadership, Dr Vinya Ariyaratne and the Sarvodaya Movement, for supporting us in this journey, and the 5,400 Sarvodaya Village Societies for their active engagement with our organisation. I would like to thank all the shareholders

who are partners in this remarkable journey, and I extend my appreciations to the Board of Directors for their unflagging commitment in driving this vision. The SDF management and staff were instrumental in tipping the scales in our favour against all odds during an extremely turbulent year, and I fully acknowledge their role in our success. Furthermore, I would like to thank our depositors and all our customers for their significant contributions and loyalty to the organisation. I also extend my gratitude to the Central Bank of Sri Lanka, the Colombo Stock Exchange and the Securities and Exchange Commission, and all supporting banks and intermediaries who have continually assisted us. I also acknowledge all other stakeholders who joined hands with us. I look forward to your continued support to achieve our ultimate vision to become a globally renowned microfinance organisation that is recognised and admired by a global audience. Together, we can build SDF to be this benchmark micro financing organisation adding great value to the villages and to the broader economy.

Sincerely,



**Channa de Silva**  
Chairman

25th May 2022

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## CHIEF EXECUTIVE OFFICER'S REVIEW



**Overall, despite the deteriorating socio-economic situation in the country, I believe SDF has a positive outlook over the short term with great potential for growth.**

# CHIEF EXECUTIVE OFFICER'S REVIEW

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As already explained by the Chairman, the financial year 2021-22 was a record year of growth and advancement for SDF. The fact that we achieved what we did, in a continually unpredictable macro environment, is the best proof of SDF's true potential.

The financial year 2021-22 was the third consecutive year of prolonged instability in Sri Lanka. In April 2019, the Sri Lankan economy was blasted by the Easter Sunday bombings, which was followed by the COVID pandemic in 2020 which spilled over into 2021, followed by a ban on chemical fertilizer and agrochemical imports, succeeded by an increasingly intensifying foreign exchange crisis. Unlike previous years, the economy could not rebound due to recurrent shocks repeatedly derailing the recovery trajectory.

The agricultural economy, which is a key sector for SDF, was hit by the ban on chemical fertilizer and agrochemicals, and also by the prolonged decline of the tourism industry, which deprived farmers of the hotel market for their rice, fruits, vegetables, fish and meat. The extension of the moratoria on loan repayments and the general downturn in economic activities continually disrupted our revenue flows. We had to watch the ground situation, anticipate market direction, and immediately realign our strategic and ground level responses across our network, to maintain momentum while safeguarding asset quality. Our network, extending down from the urban level, to deep village level, was a major strength in navigating these challenges.

It is against this unpredictable backdrop that in November 2021, SDF entered the Colombo Stock Exchange to raise LKR 1 Bn in capital. Our above-industry-average asset growth, coupled with comparatively lower non-performing assets, and potential as an impact investment opportunity through our parent Sarvodaya, was appreciated by the investor community and we have emerged stronger from the experience.

## OVERVIEW OF FINANCIAL PERFORMANCE

SDF's greatest advantage, is the SDF business model, which is inherently resilient as it is focused on village economies, which are highly adaptable and quick to recover from external shocks. Having faced continuous economic uncertainty for almost 3 years, our strategic priorities for the year was to strengthen our market linkages, grow business volumes, protect asset quality and contain our costs. The country was experiencing rapid inflation due to the depreciating rupee, rising interest rates and shortages of essential goods. We focused on reducing our cost-to-income ratio, which was achieved through both income growth and cost containment measures across our network of branches.

The effectiveness of our operational strategies is demonstrated in SDF's performance, which is the best financial performance in the Company's history, to date. The total income for the year increased 10.7% to LKR 1.9Bn, compared to LKR 1.7 Bn in the previous year, with our interest income increasing by 15.0%, while our interest expenses declined by 9.8%. The profit for the year increased by a healthy 17.5% to LKR 215 Mn from LKR 183Mn in the previous year. Assets grew by 23.7% year-on-year, the lion share from the agroleasing portfolio which rebounded to a 62% growth year-on-year, demonstrating the recovery in demand from the agriculture sector in the country and investments by farmers in agri-equipment, such as combined harvesters, tractors, earth movers, etc... Our backward linkages with leading agricultural equipment retailers have made it possible to supply modern machinery for rural farmers, modernising the sector and making it more productive.

The gold loan portfolio was another significant growth sector, and I would like to highlight that we do our best to promote gold loans as short-term working capital, instead of the traditional consumption loans that erode wealth. A majority of our gold loans are to farmers who use the funds to purchase fertiliser and other farming requirements. This year, we also supported farmers to make organic fertiliser and to find alternatives for chemical fertiliser. For instance, we collaborated with Sarvodaya to supply effective micro-organism fertiliser.

Other business lines have also performed fairly well during the year, with the exception of some SME sectors, which were more severely impacted by COVID disruptions. We maintain a close eye on these sectors to take mitigatory action.

## UPGRADING OUR NETWORK

Following the IPO, our total capital reached LKR 3.1Bn, overshooting the statutory minimum of LKR 2.5Bn and the Central Bank of Sri Lanka gave the greenlight to upgrade 21 of our service centres into fully fledged branches. This has expanded the number of SDF branches to 51, a majority of which are located outside the Western Province. The growth in the branch network will be a definite competitive advantage in the new financial year, as they will facilitate the provision of the full range of financial services to these areas. We are currently looking into upgrading these branch offices and also relocating some branches to more strategically important locations, to facilitate better access for the public. We also received Central Bank approval to install 10 ATMs in village economic centres, which will make transactions easier for the public. Once the ATMs are installed, SDF will be the finance company with the largest number of ATMs. We continued to work closely with Sarvodaya Village Societies throughout the year, for market

intelligence and to penetrate village economies. In addition to channelling funds at very reasonable rates for micro and small businesses, the Societies are an excellent channel to inculcate the savings habit among village families and improve financial literacy among village entrepreneurs.

An important component of our growth strategy, is our digital drive. Parallel to our physical footprint, we are rapidly expanding our digital footprint by encouraging rural communities onto digital platforms directly, and through Sarvodaya Societies. As many people in under-served rural areas cannot afford smart phones and laptops, we have bridged this digital divide by providing handheld devices to 100 Sarvodaya Societies. The Societies use these palmtops to conduct digital transactions on behalf of their members, for a small fee, in 100 villages across the country. The success of this strategy was witnessed during COVID lockdowns when Sarvodaya Societies conducted record numbers of financial transactions for their members, using palmtops. At this point, our system is being used to pay utility bills, money transfers, repayment of loans and data reloads for mobile phones. We plan to expand our digital systems rapidly in the new financial year. When adequate mass is built up, digital channels will become highly cost effective.

## OUTLOOK FOR THE NEW FINANCIAL YEAR

Overall, despite the deteriorating socio-economic situation in the country, I believe SDF has a positive outlook over the short term with great potential for growth. This is primarily due to our leadership, including the Chairman and the board, who have carefully guided SDF through almost 3 years of volatility and uncertainty, and our experienced team of managers, who are well versed on the market dynamics of their regions. In addition, our main business focus is the villages, which are less volatile, and our main business activities are essential to the economy and could be termed inelastic. I believe these aspects will mitigate the risk factors associated with market uncertainty.

Our priority for the future, is to help Sri Lankan businesses reach global standards, to bring much needed foreign exchange into the country. Our enhanced financial strength, and combined market reach through the Sarvodaya Society network and our expanded branch network, will allow us to target a much larger share of both the rural and urban economy in future. We will also reinforce our financial support with technical training and market support services, to facilitate sustainable growth of businesses. I am confident the regulatory authorities and the Sarvodaya Movement will support plans for training, to upscale local products to global standards. Village Business Aps and other digital channels can be used to connect local businesses to the rest of the world.

Looking forward to a positive future, I would like to thank our shareholders who have made this possible with their confidence in SDF's impact business model. I thank the Chairman and the Board for their visionary leadership and guidance, and especially my staff, who rallied around that vision and action plan to record a historic performance. I make a special mention of the founder of the Sarvodaya Movement, Dr. A. T. Ariyaratne and the current President of Sarvodaya, Dr. Vinya Ariyaratne, and all members of the Sarvodaya movement, for their unfailing support of our activities during the year. The officials of the Central Bank of Sri Lanka and Colombo Stock Exchange must be mentioned for their guidance in making our IPO a success. Mostly, I am grateful to our customers for their patronage and loyalty, and my team and I will do our best to serve our customers even better in the new financial year.

Sincerely,



**Nilantha Jayanetti**  
Chief Executive Officer

25th May 2022

# BOARD OF DIRECTORS

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## Mr. Channa de Silva

Chairman - Non-Executive / Non-Independent

Mr. Channa de Silva was appointed to the Board in April 2011, and thereafter appointed as Deputy Chairman in November 2014 and assumed office as the Chairman of the SDF in October 2016.

He previously served as the Managing Director of Summit Finance PLC, as well as Managing Director of George Steuart Finance PLC. Formerly, he served as a Director of Pan Asia Bank PLC. He also served as Group Managing Director of Delmege Group Limited. He has served the government sector previously as Director General of the Securities and Exchange Commission (SEC) and the Executive Director of the Board of Investments (BOI) Sri Lanka. He is the Chairman/Co-founder of Capital media.

He holds a Bachelor's Degree from the University of Colombo and a Master's Degrees from Harvard University and Melbourne University. He is a Fellow of the Chartered Institute of Management Accountants (FCMA - UK) and a Fellow of the Chartered Certified Accountants (FCCA - UK).

He is the Vice President of the Sarvodaya Movement and also serves as the President of the University of Colombo Graduates Association. He is a Sri Lanka board member of the member network panel of the Association of Chartered Certified Accountants (ACCA - UK) as well, as a Sri Lankan council member of the Chartered Institute for Securities & Investments (CISI-UK). He is an Edward Mason Fellow of the Harvard University and served as a Teaching Fellow in Public Finance at the Harvard Kennedy School.

## Mr. Dammika Ganegama

Senior Director-Non-Executive / Independent

Mr. Dammika Ganegama joined the Sarvodaya Development Finance PLC Board in July 2020. With over 25 years of experience in the IT industry, Mr. Ganegama is currently a Founding Partner and Executive Vice President of the Mitra Group.

The Mitra Group is headquartered in the UK with offices across Australia, Sri Lanka, Singapore and the US serving clients across 50+ countries. Mr. Ganegama owns and operates multiple ventures and businesses across many geographies and has also been appointed as a trusted advisor for several for, and not for profit organisations. He has a wealth of experience in consulting and implementing Digital Transformation programmes for global clients, ranging from SMEs, public sector, large scale enterprises and multi-nationals including Siemens, Aetna, BT, Staples, Axiata, IBM and other Fortune 500 clients. His experience and interest extends to programme management, setting up technology led new businesses, and ventures and partnerships across various industry verticals.

## Mr. Masayoshi Yamashita

Non-Executive / Non-Independent

Born in Tokyo in 1973, Mr. Masayoshi Yamashita holds a degree from the Department of Political Science at Hosei University (Japan) and currently serves as the President and CEO of Gentosha Total Asset Consulting Inc.

Mr. Yamashita began his career at the Sanwa Bank (now MUFG Bank, Ltd.), as a coverage banker for corporate clients at the bank's Iidabashi Branch, Hibiya Branch and Corporate Banking Division of Tokyo Headquarters. There, his duties included providing support for corporate funding, overseas expansion, and management finance strategies, offering settlement solutions, and making proposals to company owners looking to establish business succession frameworks. At the Sanwa Bank Headquarters, Mr. Yamashita not only gained experience as a credit inspector and president's secretary but also developed expertise in crisis management support.

After joining Gentosha Inc. (a Japanese publishing firm) in 2006, Mr. Yamashita served as a business management specialist in the Business Management Department, utilising the experience he had gained in IR, stockholder relations, internal control development, IPO preparation, MBO and other initiatives for listed companies from a corporate perspective. In 2012, Mr. Yamashita helped found Gentosha Total Asset Consulting Inc. and now also holds several concurrent positions, including Executive Officer of Gentosha Inc.

## Mr. Chamindha Rajakaruna

Non-Executive / Non-Independent

Mr. Chamindha Rajakaruna (Attorney-at-Law), is the Executive Director of Sarvodaya Shramadana Movement of Sri Lanka, the largest non-governmental organisation in the country. Mr. Rajakaruna obtained his bachelor's degree in Agriculture Engineering from the University of Peradeniya and he also possess Master of Science degrees in Water Resources Engineering from Katholieke University, Leuven and Vrije University, Brussels (2004); and from the Technical University of Karlsruhe, Germany (2006). In his academic and professional career, Mr. Rajakaruna was awarded with Vlaamse Interuniversitaire Raad (VLIR-Belgium) and Deutscher Akademischer Austausch Dienst (DAAD-Germany) scholarships, and Chevening Fellowship (UK).

Mr. Rajakaruna started his career with Sarvodaya Shramadana Movement in 2007 as development practitioner and civil society activist, and is well experienced in working with government stakeholders, national and international Civil Society Organizations, bi-lateral and multi-lateral donors in sustainable development. He is also trained in International Humanitarian Law by International Committee of Red Cross (Geneva), Government and Civil Society relations by Centre for International Development and Training (UK), Peace and Conflict Transformation by University of Ulster (Northern Ireland) and also in Child Protection by the Harvard University (USA).

He was appointed to the Board of Directors of Sarvodaya Development Finance PLC in 01st November 2017.



**Mr. C. Amrit CanagaRetna**

Non-Executive / Independent

Mr. CanagaRetna is an experienced and a qualified ex-banker, with over 35 years of international and local experience specialising in retail and corporate conventional & sharia-based financing. He specialises in financial advisory services relating to working capital funding to financial institutions, corporates, small & medium sized industries and start-ups, including foreign trade financing and construction finance.

Currently Mr. CanagaRetna is representing luxury brands in Sri Lanka as the Director – Strategic Investments of Royal Lanka Agencies (Pvt) Ltd., sole agents for MontBlanc, Baume & Mercier, Raymond Weil, Frederique Constant & Alpina Swiss brands.

He is an Associate member of the Chartered Institute of Bankers, UK and the Institute of Credit Management, UK.

Having commenced his career at European Asian Bank in 1981, he has since worked for over 8 banks both locally and internationally. Apart from his banking experience, he was the CEO / Director of a Central Bank approved finance company and has been a Financial Consultant to both private / government entities. For 7 years ending 2017, he headed Corporate & SME Business Banking areas of Islamic Financing at Amana Bank PLC as its Vice President – Business Banking. Previously he was the Deputy General Manager of Pan Asia Bank PLC.



**Ms. Shehara De Silva**

Non-Executive /Independent

Ms. Shehara was appointed to the Board of SDF in June 2019. An experienced international communications and marketing expert, Ms. Shehara has been behind the success of several local, regional and Fortune 500 multinational brands.

Ms. Shehara has worked over a decade in Malaysia with Omnicom Companies, beginning as Director Planning of Naga DDB and later Managing Director of Interbrand Malaysia one of the world's leading brand consultancies.

She is on the Board of Keells Foods PLC, The Neelan Tiruchelvan Trust, Informatics Institute of Technology and Ex-Pack Corrugated Cartons PLC. Amana Takaful Life Insurance and Optima design Pvt Ltd. She has previously served on the boards of Environment Foundation Ltd, Arthur C Clark Centre for Science and Technology, and Eagle Fund Management. She has also worked in the development sector with ILO, Internews, USAID, NORAD, GIZ, and Plan International.

She was Deputy Director General of the Board of Investment (BOI-SL). Trained in attracting FDI at the IDA in Ireland, she facilitated the transformation of three Sri Lankan groups - Singer in retail, NDB in banking and Janashakthi in insurance.

She has sat on several think tanks, judged innovation awards from the Eisenhower Fellowship and Ray Awards, to MIT global start-ups and the Roger Herschel Creativity Awards. She has spoken extensively at international conferences on branding, strategy and gender issues and won several local and international marketing and women leadership awards.



**Mr. Senthil Nandhan Senthilverl**

Non-Executive / Non-Independent

Mr. Senthilverl was appointed to the SDF Board on July 15, 2021. He counts 18 years of corporate experience. He was on the board of Pan Asian Power PLC and is currently the CEO at Dollar Corporation, a total solution provider for cosmetics, confectionery, beverages, toiletries, detergent, incense sticks and allied industries. He is also an Executive Director at Senthilverl Holdings (Pvt) Ltd, an investment company specialised in equity investments founded by Dr. Thirugnanasambandar Senthilverl.

He has exposure in several areas such as sales, marketing, purchasing, logistics and equity trading. He is a member of the Association of Business Executives and holds an MBA from the University of Southern Queensland, Australia.



**Mr. Ramesh Schaffter**

Non-Executive / Non-Independent

Mr. Schaffter was appointed to the Director board on April 2022. He serves as Managing Director/Group Chief Executive Officer of Janashakthi Group. Counting over three decades of experience in Finance and Marketing, He is a Fellow Member of the Chartered Institute of Management Accountants (UK) and former Council Member of the Chartered Institute of Management Accountants, Sri Lanka, and an Associate Member of the Chartered Institute of Marketing. He has served on the Boards of several public listed and unlisted companies.

A social entrepreneur and life coach, he is an accomplished public speaker and a multiple award winner at national and international level Toastmasters' contests. He is the former President of Habitat for Humanity Sri Lanka and a former Board Member of World Vision for Sri Lanka. He is a Co-Founder of cable television channel Swarga TV, as well as the Christian Arts Foundation (Chraft), an organization that promotes music and drama in Sri Lanka.

Mr. Schaffter also serves on the Council of the Colombo Theological Seminary, a graduate and postgraduate educational institute, and is the former Chairman of the Incorporated Trustees of the Church of Ceylon.

*Note: The following Directors resigned during the financial year*  
1. Dr. Janaki Kuruppu w.e.f 31st March 2022  
2. Mr. Sunil De Silva w.e.f 1st March 2022

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**Nilantha Jayanetti**  
Chief Executive Officer

Nilantha has a wealth of experience in the sphere of banking and finance, having served in senior management positions in reputed financial institutions with proven skills in marketing, business transformation, team building, operations management and proactive leadership in adopting technology and finance, and risk management.

Before joining SDF, he served as the Senior Assistant General Manager at Orient Finance PLC for seven years, where his initiatives positioned the company as a top brand in the industry. Previously he worked as the Marketing Manager at Merchant Bank of Sri Lanka and Finance PLC (formerly known as Merchant Credit of Sri Lanka).

He holds a degree in Business Management with a specialisation in Accountancy from the University of Kelaniya and an MBA (Banking and Finance) from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura. He has followed a programme on Strategic Leadership from Cornell University – Johnson Graduate School of Management, USA.

# SENIOR MANAGEMENT TEAM



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# SENIOR MANAGEMENT TEAM

## 1 Mr. Ranapriya Fernando Head of Credit

### Skills and Experience

Mr. Fernando has been Awarded Associate Life Membership from the Institute of Bankers of Sri Lanka. Currently reading for an Executive MBA at the University of West London.

### Previous Appointment

He has Twenty-seven (27) Years of experience in the Banking and Finance sector. Consisting of local and overseas experience, mainly in the field of Credit, Relationship Management, Mortgage Finance and Real Estate Development Projects - Commercial, Residential and Mixed Development.

## 2 Mr. Asanka Nawarathna Head of Finance

### Skills and Experience

Mr. Nawarathna is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants (CIMA - UK). He holds a Bachelor's Degree in Financial Management from the University of Sri Jayewardenepura and a Masters in Financial Economics from the University of Colombo.

### Previous Appointment

He counts over 12 years of experience in the fields of financial reporting, accounting, and auditing in NBFi Sector.

## 3 Mr. Kularuwan Gamage Head of Operations & Administration

### Skills and Experience

Mr. Gamage reading for MBA at the University of Brittany. Seventeen (17) years of corporate experience in the finance industry. Fully certified trainer of Micro Finance (ADB) & business development (CEFE).

### Previous Appointment

He served in BURO-Bangladesh, one of the leading Microfinance institutes in Bangladesh as a program accompanier.

## 4 Mr. Dilshan Dissanayake Head of Information Technology

### Skills and Experience

Mr. Dissanayake holds a Master of Business Administration from Anglia Ruskin University, UK, and a BSc. (Hons) Degree in Information Systems from the Middlesex University, UK. He is also a Certified Information Security Expert and holds a Double Graduate Diploma in Software Engineering and Network Engineering.

### Previous Appointment

He counts over thirteen (13) years of experience as an IT professional, mainly in the Non-Banking Financial & Audit Sectors.

## 5 Mrs. Ashmi Amarasinghe Head of Human Resource

### Skills and Experience

Joined SDF as the Head of HR in May 2022, Ashmi served as a member of a Corporate Management team in a state bank prior to joining SDF. She is a holder of MBA, PQHRM from CIPM Sri Lanka and a Diploma in psychology. Ashmi is an Associate member of CIPM and serves as a Visiting Lecturer at CIPM.

### Previous Appointment

Ashmi counts over 20 years of experience in the field of Human Resource Management holding Senior Management positions in manufacturing, service sector and MNC's.

## 6 Mr. Chandana Bandara Head of Internal Audit

### Skills and Experience

Mr. Bandara is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA). He is a Fellow Member of the Institute of Certified Management Accountants of Sri Lanka, a finalist of The Association of Chartered Certified Accountants (UK), and holds an MBA from the University of Colombo. He also holds a Bachelor of Accountancy Special Degree with a First Class Honors from the University of Sri Jayewardenepura.

### Previous Appointment

He counts nearly twenty (20) years of experience in the Banking & Finance, Insurance, FMCG, Manufacturing & Health Care industries. He started his career at Ernst & Young as a Senior Accountant.

## 7 Mrs. Anusha Fernando Head of Legal

### Skills and Experience

Ms. Fernando holds an LL.B Degree from the University of Colombo and enrolled as an Attorney-at-Law of the Supreme Court of Sri Lanka in 2008.

### Previous Appointment

She counts over ten (10) years of experience as a Corporate Lawyer.

## 8 Mr. Mahesh Jayasanka Chief Manager - Finance

### Skills and Experience

Mr. Jayasanka holds MAAT and CA Qualification. Sixteen (16) years of experience in Auditing, Accounting, Taxation, Process Development, and MIS through BI within the Finance and Non-Finance sectors such as banking, financial services, manufacturing, healthcare, retail, and engineering.

### Previous Appointment

Before joining SDF, he served in Ernst & Young for a seven (7) year period.

## 9 Mr. Kelum Thilakerathne Head of Leasing

### Skills and Experience

Mr. Thilakerathne holds a Diploma in Credit Management - Institute of Credit Management. Have introduced diversified leasing products in line with Sarvodaya Philosophy including Agro-based leasing in remote areas.

### Previous Appointment

He has seventeen (17) Years of corporate experience in the Leasing Industry specializing in sales and marketing.

## 10 Mr. Prabath Rangajeewa Head of Gold Loan

### Skills and Experience

Mr. Rangajeewa has Twenty-five (25) years of corporate experience in the finance sector specializing in gold loans, pawning, and gold mortgages. Provided the leadership to have a fully equipped gold loan division where more than Rs.1 Bn worth of gold loan portfolio is established.

### Previous Appointment

He has twenty five (25) Years of corporate experience in the Gold Loan Industry specializing in sales and marketing (Gold Loans).

## 11 Mr. Darshana Perera Head of Recovery

### Skills and Experience

Mr. Perera has eighteen (18) years of corporate experience in the finance sector specialized in recovery in terms of both front-office and back-office functions. He has contributed to streamlining the procedures of the Recovery division and setting up the high-tech call center in SDF.

### Previous Appointment

He has 18 years of experience in the Finance sector.

## 12 Ms. Piyumi Ranadheera Head of Risk Management

### Skills and Experience

Ms. Ranadheera is an Associated Member of CMA Sri Lanka and holds a Diploma in Management Accounting (CIMA Dip MA -CIMA -UK). She also holds a MBA from University of Colombo and Bachelor of Business Administration (BBA) in Finance (Sp) from University of Colombo. Ms.Ranadheera has successfully completed a Diploma in Bank Integrated Risk Management (Institute of Bankers of Sri Lanka) with a merit pass. She has recently followed the Certificate Course on Treasury and Foreign Exchange Operations conducted by the Centre for Banking Studies, Central Bank of Sri Lanka and is currently reading for a Diploma in Compliance at the Institute of Bankers of Sri Lanka.

### Previous Appointment

She is counting 8 years of experience in the field of risk management in the NBFi sector.

## 13 Ms. Sharonie Robert Head of Compliance/ Compliance Officer

### Skills and Experience

Ms. Robert is an Associate Member of the Institute of Chartered Corporate Secretaries in Sri Lanka and a registered Company Secretary in Sri Lanka. She holds a Diploma in Management Accounting from the Institute of Chartered Management Accountants, CIMA, UK.

Ms.Robert is currently reading BA (Hons) International Business and Finance at the University of West of Scotland, UK. She holds a Certificate in Global Financial Compliance from the Chartered Institute of Securities and Investment, UK, and a Certificate in Banking and Finance from The Institute of Bankers of Sri Lanka.

### Previous Appointment

She has 9 years of experience in the Non-bank financial sector in Compliance, Company Secretarial, and Corporate Governance.

## 14 Mr. Manjula Kumarasinghe Senior Manager - Credit Administration

### Skills and Experience

Mr. Kumarasinghe holds B.B.Mgt. Accountancy (Special) - from the University of Kelaniya and Higher National Diploma in Accountancy. As the Head of Credit Administration, he contributes in many aspects towards the improvement of the quality of the lending portfolio by formulating Credit Administration Procedure Manuals, implementing good checks and controls in security documentation, etc.

### Previous Appointment

He counts over 23 years of overall experience in a variety of industries including manufacturing, shipping, tourism as an Accountant and in the NBFi sector.

## 15 Mr. Nipuna Fernando Senior Manager - IT Operations

### Skills and Experience

Mr. Fernando holds an MBA in the Finance University of Colombo, BSc. Physical Science at the University of Colombo, Diploma in Computer System Design at NIBM.

### Previous Appointment

He has 12 years of experience in the Finance Sector as an IT Profession.

## 16 Mr. Chaminda Niroshana Senior Manager - Operations

### Skills and Experience

Mr. Niroshana holds a Diploma in Banking at IBSL.

### Previous Appointment

He has 28 years of experience in the Banking and Finance sector. He is in charge of the security documents in SDF.

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- 1 Mr. Sujith Asanka - Western Region
- 2 Mr. Amila Rajapaksha - Southern Region
- 3 Mr. Thushantha Pathirana - Uwa Region
- 4 Mr. Jude Dharmasena - North Region
- 5 Mr. Lakmal Munasinghe - Sabaragamuwa Region
- 6 Mr. Chathura Kodippili - Rajarata Region
- 7 Mr. Buddhika Sanjeeva - Central Region
- 8 Mr. Rames Kanthaperumal - Eastern Region
- 9 Mr. Manoj Fernando - North Western Region
- 10 Mr. Chathuranga Fernando - North Central Region

# BRANCH MANAGERS

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Region	Branch	Full Name	Contact Numbers	Office Mobile	Office E-mail
Region 01	Delgoda	C U Speering	115941666	0762937248	mgrdelgoda@sdf.lk
	Pasyala	M D S Amila Perera	335112666	0740406161	mgrpasyala@sdf.lk
	Panadura	A S K De Alwis	385111666	0776744901	managerpanadura@sdf.lk
	Homagama	R B R Thushara	115944666	0761882861	managergampaha@sdf.lk
	Piliyandala	H M G C Nishan	115945666	766217012	mgrpiliyandala@sdf.lk
Region 02	Galle	B H G P C Jayalath	915111666	0777521173	managergalle@sdf.lk
	Ambalantota	H A D Kumara	475111666	769422454	managerambalantota@sdf.lk
	Matara	R S Koswatta	415111666	771571282	managermatara@sdf.lk
	Akuressa	M W P Kumuduni	415114666	768693068	mgrakuressa@sdf.lk
	Karandeniya	K L D P Karunarathna	915112666	0740749140	mgrkarandeniya@sdf.lk
Region 03	Kamburupitiya	M A Laksiri	415116666	774803861	mgrkamburupitiya@sdf.lk
	Monaragala	P P A P Jayasinghe (Acting Manager)	555115666	742723253	managerbuttala@sdf.lk
	Ampara	W M J Bandara	635111666	0777525179	managerampara@sdf.lk
	Badulla	W H N Nilantha	555111666	0762868914	managerbadulla@sdf.lk
	Kataragama	H A S W Hettiarachchi	475112666	0776723380	mgrkataragama@sdf.lk
Region 04	Medagama	M T H F Maulana	555113666	0762937177	mgrmedagama@sdf.lk
	Mahiyanganaya	K M D P B Kulasekara	555112666	0760305873	mgrmahiyanganaya@sdf.lk
	Vavuniya	J N Dissanayaka (Acting Manager)	245111666	763167311	managervavuniya@sdf.lk
	Jaffna	F Amalas	215111666	0778513766	managerjaffna@sdf.lk
	Mannar	H S J S Dharmasena (Acting Manager)	235111666	768720670	mgrmannar@sdf.lk
Region 05	Godakawela	B G N Jayathilake	455112666	0777548398	managergodakawela@sdf.lk
	Balangoda	K V S Dhanapala	455111666	0763167288	managerbalangoda@sdf.lk
	Ratnapura	E K M P Amarasinghe	455113666	0763415974	managerratnapura@sdf.lk
	Kegalle	Y M D N Thilakarathna	355111666	765476758	managerkegalle@sdf.lk
	Ruwanwella	M G V Maweekumbura	365111666	777508672	mgrruwanwella@sdf.lk
Region 06	Kebithigollewa	H Liyanage	255112666	0768388683	managerkebithigollewa@sdf.lk
	Thambuttegama	P W D Samantha	255114666	0777540253	mgrtambuttegama@sdf.lk
	Parakkramapura	M A Premalal	255115666	0763167352	mgrparakkramapura@sdf.lk
	Anuradhapura	H M D A Senavirathna	255111666	742528504	manageranuradhapura@sdf.lk
	Kekirawa	M G S P Herath	255113666	0740999165	mgrkekirawa@sdf.lk
Region 07	Matale	B M Chandrarathna	665112666	740946985	managermatale@sdf.lk
	Kandy	M S Premarathne	815113666	740384634	managerkandy@sdf.lk
	Nawalapitiya	C P Hettiarachchi	545111666	0774791083	mgrnawalapitiya@sdf.lk
	Digana	I A P Jayasighe	815112666	0762929079	mgrdigana@sdf.lk
	Nuwaraeliya	M G P A B Wickramasinghe - (Acting Manager)	525111666	0763167406	managernuwaraeliya@sdf.lk
Region 08	Hatton	M G V Maweekumbura (Acting Manager)	515111666	777508672	mgrhatton@sdf.lk
	Trincomalee	P J Niroshan	265111666	0778232279	managertrinco@sdf.lk
	Batticaloa	B Selvanayagam	655111666	0773137784	managerbatticaloa@sdf.lk
	Kalmunei	A M Jaleel	675106666	771065108	mgrkalmunai@sdf.lk
	Region 09	Kuliyapitiya	D M I Dayaratna	375111666	0777540588
Puttalam		W S P S Rodrigo	325113666	0761652452	managerchilaw@sdf.lk
Chilaw		S M N S Bandara	325111666	740017029	managerchilaw@sdf.lk
Gampaha		A H T Salgado (Acting Manager)	335111666	769082306	managergampaha@sdf.lk
Nattandiya		R D T L Kumara	325112666	0771960463	mgrnattandiya@sdf.lk
Region 10	Minuwangoda	K S Silva	335113666	0762857084	mgrminuwangoda@sdf.lk
	Dehiattakandiya	S A J Chaminda	275113666	764447838	mgrdehiattakandiya@sdf.lk
	Kurunegala	A M H M B Jayaweera	375112666	0764783556	managerkurunegala@sdf.lk
	Medirigiriya	A E Weerakkody	275111666	0764868419	medirigiriya@sdf.lk
	Polonnaruwa	M P Sooriyaarachchi	275112666	0771462489	managerpolonnaruwa@sdf.lk
Head Office	Dambulla	A M C M Samarakon	665111666	0740573981	managerdambulla@sdf.lk
	Borella	Asanka J A D S - (Acting Manager)	115942666	764831124	asankas@sdf.lk

# VALUE CREATION MODEL

GRI 2-6

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SDF is the first impact investment company to list on the Colombo Stock Exchange. With the foundation set by Sarvodaya, we have developed a unique value creation model - which is a sustainable mechanism to channel funds into Sri Lanka's under-developed rural interior.

- Our impact investment model utilises our capitals to design and deliver formal financial services (lending and deposit products) to the public, and small and micro entrepreneurs, most of whom live outside the Western Province.
- A large share of the profits from our business activities are distributed among our shareholders as dividends. Sarvodaya entities, including over 1,000 Sarvodaya Shramadana Societies, represent a majority 54% of our shareholder base.
- Consequently, over half our dividends are redirected into rural communities and to rural entrepreneurs, through Sarvodaya Societies and other Sarvodaya entities.

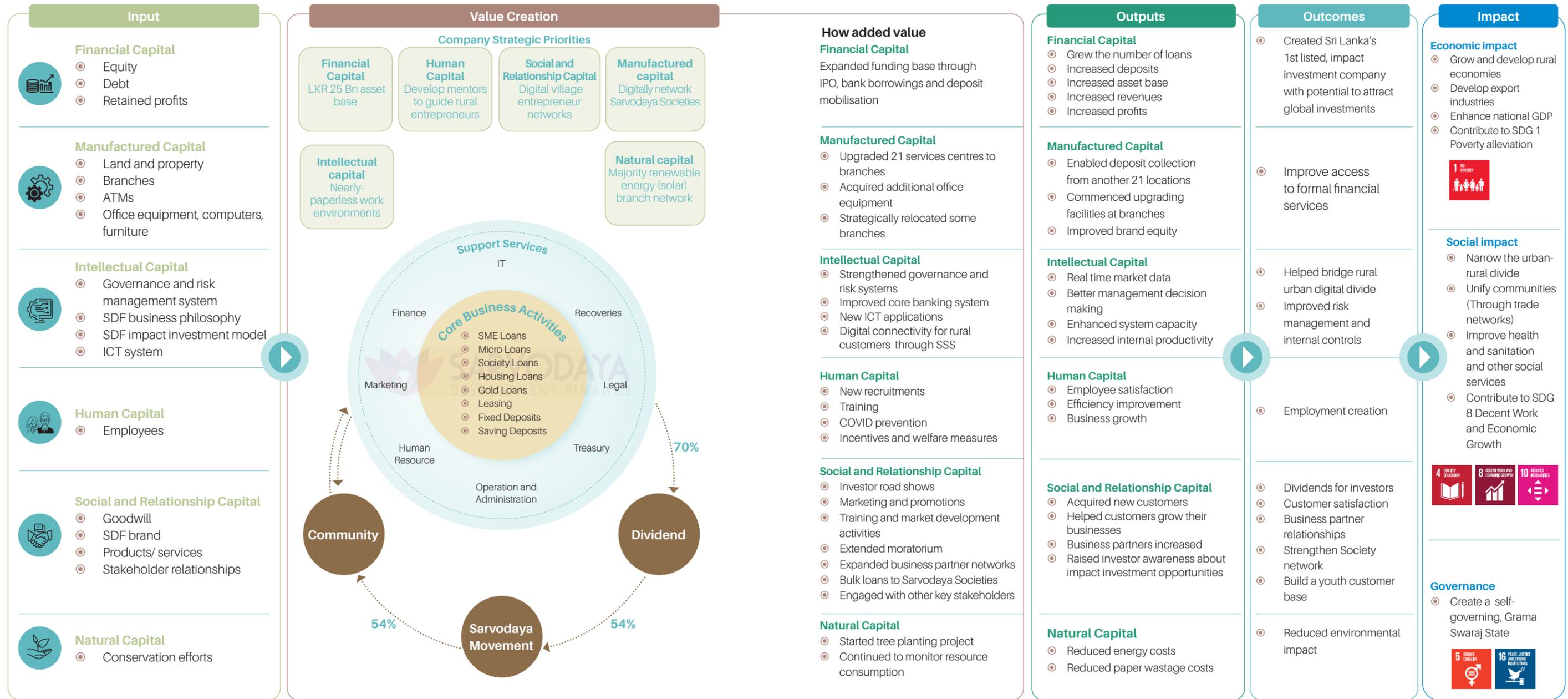
Our business model is founded on the apolitical and non-discriminatory Sarvodaya vision of creating a 'Grama Swaraj,' which is a Common State of autonomous, empowered villages.

## Vision, Mission and Values

### Macro Environment - Business Ethics, Code of conduct

### Micro Environment - Risk Management

### Internal Environment - Corporate Governance, Internal audit



# OUR STRATEGIES, POLICIES AND PRACTICES

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Please refer the Chairman's Message for a detailed description of the SDF's sustainability strategy, including our Impact Investment strategy and plans to sustain future growth of the Company. In addition, our capital reports also contain strategic information with regards to the expansion of our capitals.

## SDF POLICIES AND PRACTICES

### GRI 2-23

#### Policy commitments for responsible business conduct

**SDF's business policies and practices are rooted in the Sarvodaya philosophy of apolitical and non-discriminatory wellness for all people. Therefore, SDF does not support industries that are deemed anti-social and practices non-discrimination in its engagements with stakeholders.**



- Within our business scope, we are committed to the 2 United Nations Sustainable Development Goals of 'Zero Poverty and Decent Work and Economic Growth.'
- SDF's policy on impact investment facilitates a circle of direct financial benefits for communities that contribute towards poverty alleviation.
- SDF channels millions into the rural economy annually through Sarvodaya Village Societies.
- In practice, SDF maintains a policy of non-exploitative, competitive interest rates for all its lending products, and for microfinance lending, maintains interest rates below the market average, and well below the black market rates of informal money lenders.
- In addition to complying with all Central Bank of Sri Lanka (CBSL) directives in business activities, in practice, SDF engages with all communities indiscriminately, and encourages adopting traditional Sri Lankan hospitality and friendliness at all its branches and head office.
- As a practice SDF works closely with the Sarvodaya Movement in community welfare projects that have clearly identified specific needs of communities for maximum impact
- Board approved policies are available with regards to almost all aspects of employee management, and in practice, employee welfare extends well beyond all applicable labour regulations.
- Formal Board approved policies are available with regards to marketing and promotions, complying with CBSL directives and the Finance Business Act, that prohibits misleading and misinforming consumers
- Stemming from the Sarvodaya philosophy, of living in harmony with nature, SDF encourages environmentally friendly business practices and has invested in a number of conservation efforts. Please refer the Natural Capital chapter on page 94.

### GRI 2-24

#### Embedding policy commitments

- The primary method of embedding policy commitments and business practices is by example, where the Board and leadership attempt to practice compliance, non-discrimination and cooperation.
- A formal Code of Conduct is made available to all employees and is included in the induction/orientation of new recruits.
- We invest in continuous employee training and monitoring performance as well as behaviour of employees.

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### GRI 2-25

#### Processes to remediate negative impacts (Grievance mechanisms)

- We maintain an open-door policy to address employee grievances and all employees have direct access to the CEO and Chairman.
- In addition, we have a formal Whistle-blower Policy that safeguards employees from retaliation in reporting concerns
- SDF has implemented the CBSL's Financial Customer Protection Framework and provides multiple channels for customers to raise concerns and make complaints. These include the SDF website, SDF social media platforms, SDF hotline which can redirect customers to the correct officials and contact information provided in all marketing and promotional material.
- We have an informal mechanism for communities to raise their concerns. This includes the Sarvodaya Societies and publicly available contact information for SDF managers.

### GRI 2-26

#### Mechanisms for individuals to seek advice and raise concerns

- The Board of Directors are authorised to call for external consultants and expertise whenever required.
- The SDF Whistle-blower policy provides for any employee or external party to raise concerns confidentially, and with no threat of retaliation.
- Performance evaluations are a regular platform for individuals to seek advice on personal development and career progress
- The open-door policy makes it possible for any individual, to discuss any matter, with the Management or Head of Human Resources.

### GRI 2-27

#### Compliance with laws and regulations

- To the best of our knowledge, SDF is fully compliant with all applicable regulations and did not face any fines or penalties for non-compliance with any regulation during the year under review.

### GRI 2-28

#### Membership in associations

As at end March 2022, SDF held membership in the following trade organisations and national bodies.

##### Industry bodies

- Lanka Microfinance Practitioners' Association
- The Leasing Association of Sri Lanka
- The Finance House Association of Sri Lanka

##### National bodies

- The Financial Ombudsman Sri Lanka
- The Credit Information Bureau of Sri Lanka

# MATERIALITY ASSESSMENT AND MATERIAL TOPICS

The material topics discussed within this report have been selected using the GRI's prioritisation approach, where material topics were identified by the senior management and a 'filtering' approach was used to select the most material and impactful topics, based on each topic's importance to stakeholders and the Company.

While SDF did not conduct a stakeholder survey specifically for the purpose of this report, the long-term relationships with key stakeholders were deemed adequate to understand stakeholder expectations and concerns in prioritising the material topics for disclosure.

## GRI 3-1

As indicated by the materiality map below, a majority of disclosures carried in this report are topics prioritised as high importance to both the Company and its stakeholders. SDF's high priority topics are predominantly related to social and public welfare, instead of direct financial gains, such as respecting the rights of indigenous communities, diversity and non-discrimination. This is due to SDF's business philosophy which is rooted in the Sarvodaya philosophy, and also the 'impact investment,' objectives of SDF's shareholders.

Please refer disclosure table 3-2 & 3-3 below, for further clarifications on how we manage our material topics.



## GRI 3-2 LIST OF MATERIAL TOPICS &

## GRI 3-3 MANAGEMENT OF MATERIAL TOPICS

Material topic	Disclosure 201-1 Direct economic value generated and distributed	Disclosure 203-2 Significant indirect economic impacts	Disclosure 207-1 Approach to tax
<b>Impacts on the economy, environment, and people, and human rights</b>	The impacts of our economic value generation are felt by our key stakeholders who benefit from our value creation.	Our main indirect economic impact is by redirecting funds to rural communities through dividend payments to related entities of Sarvodaya.  The impact of this action is on our parent Sarvodaya, and rural and underserved communities	The impact is mainly on the company itself due to the high level of taxation
<b>Whether negative impacts are from company activities or business relationships</b>	To date, there have been no negative impacts through our economic value generation.	To date the impacts have been positive	No negative impacts
<b>Policies or commitments regarding the material topic</b>	We are committed to create value for all our stakeholders	We are committed to enhance our indirect impacts	Our policy is full compliance with all applicable tax regulations
<b>Actions to manage the topic and impacts</b>	Internal controls are in place to prevent misappropriation to ensure economic value accrues to our stakeholders.	We hope to maintain an above average dividend payout ratio to support social welfare	Internal controls
<b>Tracking effectiveness the actions taken</b>	Internal audits and external audits are conducted regularly to prevent loss or misappropriation of economic value we create.	Continuous involvement with Sarvodaya activities	Internal audits and external audits
<b>How stakeholders influenced the actions taken and effectiveness</b>	Our stakeholders stay with us because of the value we create for them.	Our parent and other impact investors encourage us to have positive indirect economic impacts	All our stakeholders appreciate our policy

# MATERIALITY ASSESSMENT AND MATERIAL TOPICS

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Material topic	Disclosure 302-1 Energy consumption within the organization	Disclosure 302-4 Reduction of energy consumption	Disclosure 303-5 Water consumption	Disclosure 306-3 Waste generated Disclosure
<b>Impacts on the economy, environment, and people, and human rights</b>	The impact is primarily in the form of very limited environmental impact in the form of our comparatively small carbon footprint.  This impact may be offset by economic benefits we generate for people through our operations.	SDF benefits from the reduction in energy consumption through lower energy expenditure. In addition, the negative environmental impacts from fossil fuel energy consumption are reduced	SDF water consumption is limited to drinking and sanitation. We do not extract ground water. Therefore, the environmental impact is minimum	Our waste products are mainly paper, which is biodegradable and some e-waste due to replacement of equipment. The impact, if any, is from e-waste on the environment.
<b>Whether negative impacts are from company activities or business relationships</b>	Negative impacts are mainly due to the company's activities which contribute to the Company's carbon footprint as we expand our operations	There are no negative impacts from reducing our energy consumption	There are no significant negative impacts.	Any negative impacts are due to company activities.
<b>Policies or commitments regarding the material topic</b>	SDF has commenced monitoring energy consumption	We are committed to reduce energy wastage and reduce energy consumption	We are conscious of the need to minimise water wastage.  However, we are also conscious of adequate access to water for COVID prevention handwashing, and health and sanitation needs for customers and staff.	We are conscious of the need to reduce, recycle and reuse paper.  We are conscious of environmental impacts from e-waste and have adopted proper disposal procedures
<b>Actions to manage the topic and impacts</b>	We have commenced monitoring fuel and electricity consumption at head office and branches	We are identifying potential points of wastage.  Raising awareness among employees to conserve energy.  We are investing in energy conservation such as LED bulbs, energy efficient equipment.	We have commenced monitoring water consumption.  We conduct routine maintenance to minimise wastage from leakages.	We have introduced a recycling system for paper and we encourage employees to reduce waste.  e-waste is not dumped in landfill, instead we dispose through collectors.
<b>Tracking effectiveness the actions taken</b>	SDF branch managers monitor consumption at each branch and report to head office.  Head office consumption is monitored by the Finance Department	We monitor consumption at branch and head office to encourage conservation	Water consumption reports are collected by each branch and sent to head office	We will introduce a formal mechanism to track the recycling and e-waste disposal
<b>How stakeholders influenced the actions taken and effectiveness</b>	SDF's shareholders are impact investors interested in conservation. Therefore, we attempt to meet this shareholder requirement through conservation	SDF shareholders have influenced the company to conserve energy and reduce the carbon footprint	Our investors are interested in conservation	Our investors are interested in reducing environmental impacts

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Material topic	Disclosure 401-1 New employee hires and employee turnover	Disclosure 404-1 Average hours of training per year per employee	Disclosure 405-1 Diversity of governance bodies and employees	Disclosure 406-1 Incidents of discrimination and corrective actions taken
<b>Impacts on the economy, environment, and people, and human rights</b>	The impact is on local communities that benefit from formal employment opportunities	The impact is on our employees and also customers	The impact is on society	The impact is on society
<b>Whether negative impacts are from company activities or business relationships</b>	There are no negative impact	There are no negative impacts	There are no negative impacts	We want to actively avoid negative impacts due to discrimination
<b>Policies or commitments regarding the material topic</b>	We are an equal opportunity employer	We are committed to the development of our employees	We maintain a non discrimination policy that results in diversity	We maintain a non discrimination policy in all matters
<b>Actions to manage the topic and impacts</b>	Formal recruitment procedures are practiced at all times	Formal training needs assessments, including performance evaluations, are in place	Nominations to the board are governed by best practices.  Recruitments are controlled through formal procedures	Control mechanisms are available to prevent discrimination
<b>Tracking effectiveness the actions taken</b>	The recruitment process has multiple layers to prevent bias and irregularities	Employee feedback is obtained after training events	Multilayer approach to prevent bias and irregularities	Customer feedback and employee grievance mechanisms are operational to bring any discrimination to the notice of the senior management
<b>How stakeholders influenced the actions taken and effectiveness</b>	All our stakeholders appreciate our structured recruitment process	All our stakeholders appreciate our efforts to develop our employees	All our stakeholders appreciate our diversity concept	All our stakeholders appreciate our non discrimination policy

# MATERIALITY ASSESSMENT AND MATERIAL TOPICS

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Material topic	Disclosure 411-1 Incidents of violations involving rights of indigenous peoples	Disclosure 413-1 Operations with local community engagement, impact assessments, and development programs	Disclosure 417-2 Incidents of non-compliance concerning products and service information and labeling
<b>Impacts on the economy, environment, and people, and human rights</b>	Any violations would impact the Vedda community in Mahiyanganaya	Impacts are mainly on people and the rural economy as we frequently engage with different local communities directly and through Sarvodaya Societies.  These are for social welfare projects and for business related activities, such as training events and to create market linkages for micro and small business communities.	Negative impacts will be felt by SDF customers in the form of financial losses due to misinformation.
<b>Whether negative impacts are from company activities or business relationships</b>	There have been no known negative impacts to date.	Impacts are from our activities	To date, there have been no reports of any negative impacts
<b>Policies or commitments regarding the material topic</b>	We have a policy of no-harm to anyone.	We are committed to the welfare of all communities	We are fully compliant with all applicable regulations by the Central Bank and under the Finance Act.  We are also guided by our business ethics
<b>Actions to manage the topic and impacts</b>	Staff are trained on non-discriminatory, ethical services and to observe all applicable regulations	The senior management are directly involved in most community activities.	All marketing and promotional material are reviewed by relevant managers for regulatory compliance
<b>Tracking effectiveness the actions taken</b>	Branch and regional management meetings	Feedback/complaint opportunities are provided to anyone.	We provide multiple channels for customer complaints, including a hotline, a contact number for customer complaints, social media and website
<b>How stakeholders influenced the actions taken and effectiveness</b>	Our parent, Sarvodaya insists on equitable, non-exploitative treatment of all communities	Our parent Sarvodaya is actively involved in community welfare projects.	We are guided by the Sarvodaya ethics

# OPERATING ENVIRONMENT

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In 2021, the domestic economy commenced recovery from 2020 COVID-19 impacts and rebounded rapidly even after the 3rd COVID wave in September 2021. However, the political economy continued to deteriorate rapidly from the 4th quarter of the financial year, from approximately January to end-March 2022. The country began experiencing repeated and acute shortages of essential goods including fuel, gas and cement, due to dwindling foreign exchange reserves. The rate of inflation, which had been climbing throughout the year, now started to accelerate and shortages of food items became more pronounced. The situation was worsened by the ban on agrochemicals and chemical fertilizer from April 2021-November 2021, which reduced agricultural productivity. Although we have done extremely well in the leasing sector, the industry as a whole, was constricted due to the continuing ban on vehicle imports since March 2020, and we have also grown our gold loan business.

The prevailing unfavourable conditions, had an unavoidable impact on our operations and financial outcomes for the year, as livelihoods and small and micro businesses were disrupted and disposable incomes shrank rapidly. In order to present our financial performance in context, the most material macroeconomic developments are described in this chapter.

## GLOBAL ECONOMY

The global economy has experienced a growth rebound in 2021, driven by accommodative fiscal and monetary policies. Global growth is expected to slow in 2022, and inflation is expected to persist for longer. The higher interest rates experienced globally will make borrowing more expensive, especially for countries that borrow in foreign currencies and on short-term horizons.

Russia's invasion of Ukraine has pushed crude prices past the USD100-a-barrel mark. Gold prices also rose as investors turned to safe-haven assets. Russia is a major supplier of natural gas and oil. Russia and Ukraine together account for a quarter of world wheat supplies. In addition, Russia is one of the world's major suppliers of industrial metals. Higher energy prices and supply disruptions will lead to higher and broader inflation than expected, especially in many emerging market and developing economies.

## SRI LANKAN ECONOMY

According to Central Bank data, the national GDP at constant prices grew by 3.7 % to LKR 9,881.4 Bn in 2021, compared to the 3.6% contraction in 2020. Agriculture activities recorded an expansion of 2.0% in 2021 in value-added terms, recovering from the contraction of 2.2% recorded in 2020, mainly on account of the expansion in coconut and animal production activities. However, rice, fruits, vegetables, other perennial crops, rubber and other beverage crops (coffee, cocoa, etc.) contracted during the year.

Industry value-added recovered by 5.3% in 2021, from the contraction of 6.9% in 2020. The value-added of services activities increased by 3.0% in 2021, from the 1.6% downturn in 2020. The services recovery was due expansion in financial services, wholesale and retail trade activities, real estate activities, IT programming, telecommunication and health activities.

## INFLATION

Prices of items in the Volatile Food category increased noticeably in the latter part of 2021, mainly due to harvest reductions by shifting to organic farming practices. Prices of food items, excluding Volatile Food, increased continuously during 2021 as did prices of items in the Non-Food category. Reflecting these developments, the Colombo Consumer Price Index (CCPI, 2013=100) moved up from 138.7 index points in January 2021, to 154.7 index points in December 2021. The National Consumer Price Index (NCPI, 2013=100), which recorded 142.1 index points in January 2021, increased to 161.0 index points by December 2021.

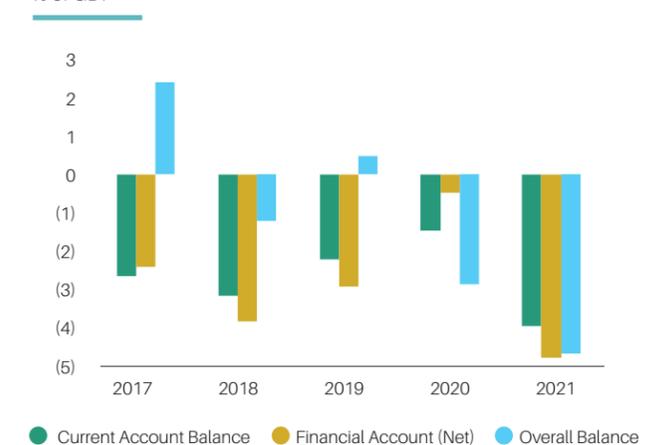
## EXTERNAL SECTOR

Sri Lanka's current account deficit widened to US dollars 3.3 Bn in 2021, from US dollars 1.2 Bn in 2020, which, as a percentage of GDP, came to 4.0 % in 2021, from 1.5 % in 2020. In the financial account of the BOP, net liabilities recorded an increase of US dollars 1.9 Bn in 2021, compared to a reduction of US dollars 1.7Bn in 2020. FDIs amounted to US dollars 784 Mn in 2021, in comparison to US dollars 670 Mn in 2020.

The total external debt of the country increased to US dollars 50.7 Bn by end 2021, from US dollars 49.0 Bn by end 2020 and net international reserves recorded a deficit by end 2021, resulting in the overall balance of payment also recording a deficit of around US dollars 4.0 Bn in 2021, compared to a deficit of US dollars 2.3 Bn in 2020. Gross official reserves declined to US dollars 3.1 Bn by end 2021 compared to US dollars 5.7 Bn recorded at end 2020.

## Balance of Payments

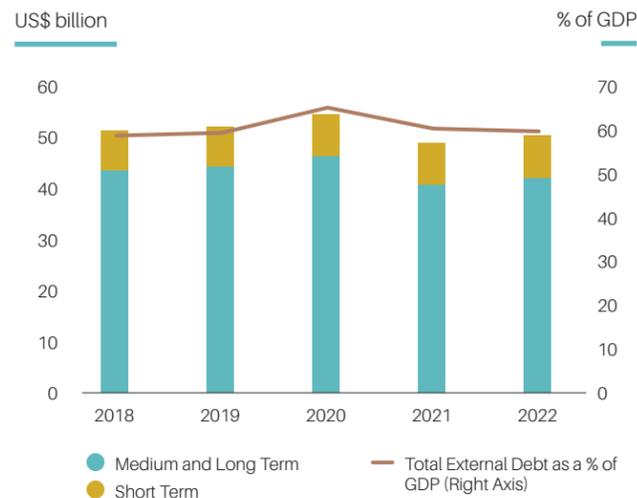
% of GDP



Source: Central Bank of Sri Lanka

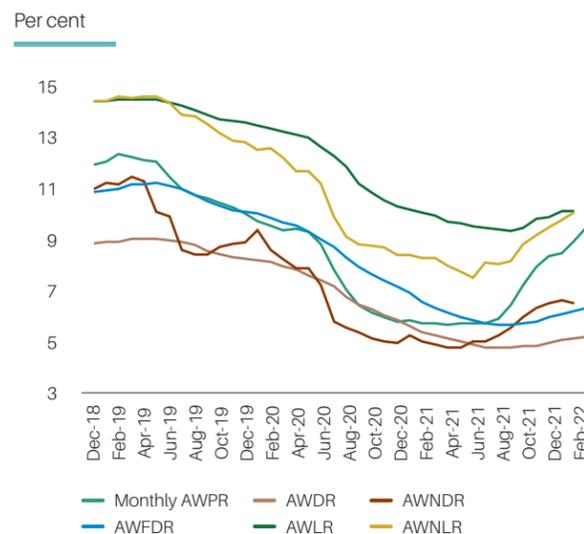
# OPERATING ENVIRONMENT

## External Debt



Source: Central Bank of Sri Lanka

## Movement of Selected Market Interest Rates



Source: Central Bank of Sri Lanka

## EXCHANGE RATE

The weighted average spot exchange rate in the interbank market remained broadly stable during the latter part of 2021, at around LKR 200 – LKR 203, per US dollar, and the annual depreciation of the rupee was 7.0% against the US dollar at end 2021. The Sri Lanka rupee appreciated against the Japanese yen (3.8%) and the euro (1.1%), and depreciated against the pound sterling (6.0%) and the Indian rupee (5.5%) during 2021.

However, following the decision to float the rupee in early March 2022, the Sri Lanka rupee depreciated by 33.0% against the US dollar by end March 2022. The Sri Lanka rupee depreciated against the euro (32.1%), the Indian rupee (31.7%), the pound sterling (31.1%), and the Japanese yen (28.9%) by end March 2022.

## INTEREST RATES

Policy interest rates of the Central Bank, i.e., the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) were raised by 50 basis points each in mid-August 2021 to 5.00% and 6.00%, respectively. The Statutory Reserve Ratio (SRR) was also increased by 2 percentage points to 4.0% effective September 2021. In August 2021, policy interest rates were increased by 150 basis points. In April 2022 policy interest rates were raised by 700 basis points, along with the decision to remove almost all caps imposed on lending products.

The Average Weighted Deposit Rate (AWDR) and the Average Weighted Fixed Deposit Rate (AWFDR) recorded their historically lowest levels of 4.75% and 5.62%, respectively, by end August 2021. However, following the tightening of monetary conditions,

all deposit rates commenced increasing with the AWDR increasing by 32 basis points from August 2021 through end February 2022, while AWNDR also increased by 131 basis points during this period.

Most market lending rates were also at historically low levels in 2021, where the monthly Average Weighted Prime Lending Rate (AWPR), the Average Weighted Lending Rate (AWLR) and the Average Weighted New Lending Rate (AWNLR) were 5.65% in April 2021, 9.37% in September 2021 and 7.47% in June 2021, respectively. From August 2021, the AWPR, AWLR and AWNLR increased by 310, 75 and 203 basis points, respectively, by end February 2022.

## NON-BANK FINANCIAL SECTOR DEVELOPMENTS

By end 2021, the sector comprised 39 Licensed Finance Companies (LFCs) and 3 Specialised Leasing Companies (SLCs) that recorded a considerable improvement in terms of credit growth and profitability on an overall basis. The Sector Return on Equity (ROE) improved to 20.2% from 6.1% in 2020 and Return on Assets (ROA) before tax, improved to 5.4% in 2021 from 1.7% in 2020.

As directed by the Central Bank, the sector had to provide a six-month moratorium on capital and interest payments on loans obtained by borrowers affected by the pandemic and to waive off any accrued and unpaid penal interest charged on such loans. Considering the subsequent waves of the pandemic, this was extended for more than 18 months. Additionally, the Central Bank introduced a LKR 50 Bn refinancing and credit guarantee

scheme to provide low-cost funding for Small and Medium Enterprise (SME) customers, reduced interest rates on targeted lending products, provided a liquidity facility to the construction sector and other government suppliers, suspended recovery actions against non-performing loans, and reduced fees and charges on several banking services to provide relief to retail customers.

## ASSET BASE

The asset base of the sector increased by 6.1% (by LKR 86 Bn) to LKR 1,487.7 Bn in 2021, compared to the 2.2% contraction observed in 2020. Expansion was mainly driven by the growth in the loans and advances portfolio, which accounted for 76.8% of the total assets of the sector.

## CREDIT QUALITY

Non performing loans (NPLs) remained high in the industry although the total gross NPLs reduced by 13.9% (LKR 22. Bn) by end December 2021 on a year-on-year basis, compared to an increase of 26.2% (LKR 33.4 Bn) recorded at end December 2020.

The net NPL ratio reduced to 2.7% by end 2021 from 4.2% reported by end 2020, due to higher provision coverage for NPLs.

The provision coverage ratio increased to 66.8% in December 2021, compared to 58.9% reported in December 2020.

## CAPITAL AND LIQUIDITY

The capital base improved to LKR 251.6 Bn by end 2021 from LKR 218.9 Bn recorded by end 2020, with the infusion of new capital by several LFCs to meet regulatory requirements of LKR 2 Bn by 01 January 2021, and LKR 2.5 Bn by 01 January 2022. The sector's core capital and total capital ratios increased to 15.5% and 17%, respectively, by end 2021 from 14.5% and 15.7% at end 2020.

The liquidity ratio (liquid assets against deposits and borrowing) increased to 14.1% by end December 2021, compared to 13% recorded by end 2020.

The liquidity surplus by end 2021 declined by 25.9% (LKR 23 Bn) compared to the liquidity surplus of LKR 89 Bn recorded in December 2020, following the increase in minimum liquidity requirements.

# FINANCIAL CAPITAL

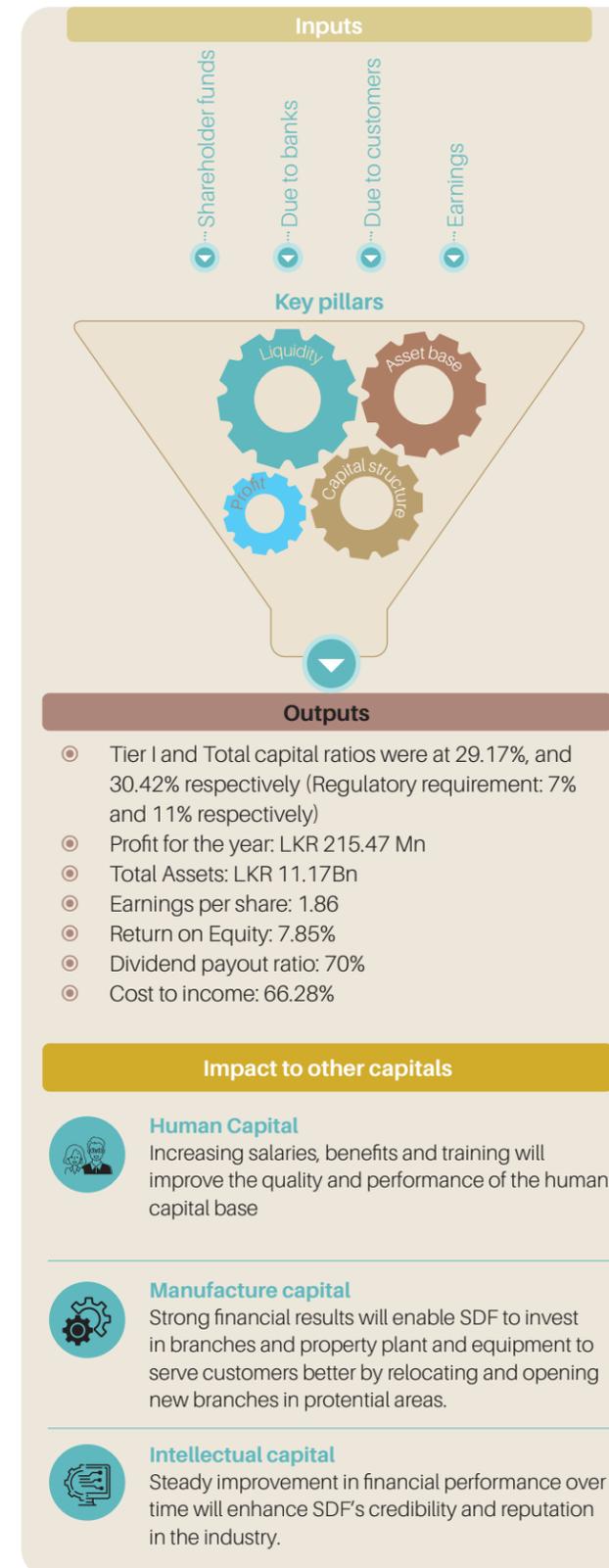


LKR **215** Mn  
**HIGHEST EVER PAT**

**17.51** %  
**HIGHEST EVER GROWTH IN PAT**

LKR **11,174** Mn  
**HIGHEST EVER TOTAL ASSETS**

As a financial services provider, our financial capital is our most material capital and represents the long term sustainability of the Company. Therefore, managing our financial capital and financial risks is a fundamental aspect of our operations. The status of our financial capital as at end March 2022, is described in this chapter. We request our stakeholders to refer the Risk Management report for further details on how we manage our financial risks.



## CHANGES TO OUR FINANCIAL CAPITAL

SDF's financial capital primarily comprises of the two components of equity and debt. During the financial year 2021-22, their composition experienced significant changes from acquisition of new equity capital through an Initial Public Offering (IPO). In addition, we include our earnings, or retained profits as part of our financial capital base.

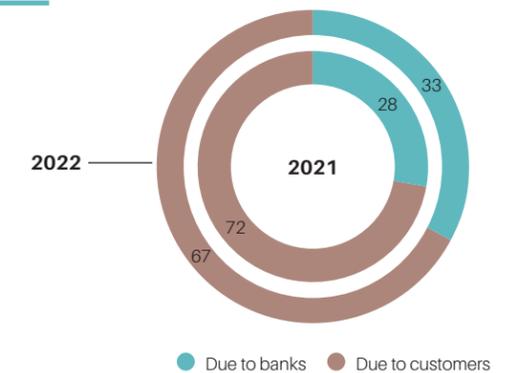
### Equity capital

In November 2021, SDF's IPO raised LKR 1 Bn in equity capital. The primary purpose of the new capital was to enhance the capital base to comply with core capital requirements for nonbank financial companies, as directed by the Central Bank of Sri Lanka. The secondary objective was to finance business expansion. Following the IPO, SDF's total equity increased to LKR 3.30 Bn, from LKR 2.18 Bn.

### Debt Capital

The total debt stock increased by LKR 590.56 Mn, to LKR 2,320.18 Mn from LKR 1,729.62 Mn one year ago. This debt was mainly from local banks as working capital to finance the rapid business growth during the last 4 months of the year. Public deposits increased by 3.89% to LKR 4,729.10 Mn, from LKR 4,551.95 Mn.

### Due to Bank and Due to Customers (%)



## BUSINESS PERFORMANCE

SDF's business can be broadly categorised as lending and deposits, marketed as a range of different lending products and savings products designed to meet different customer requirements. During the current financial year, SDF recorded a strong growth in business volumes as the funds from the IPO were invested into the lending portfolio. Consequently, the last 4 months of the year recorded lending growth of over LKR 1 Bn per month.

## Strategic priorities for the year

Given the unstable operating environment and the trend towards rising interest rates, our strategic priorities for the year were focused towards stability and managing asset quality.

Strategic Priorities	Strategies
Grow bottom-line	Push top-line and sustain Net Interest Margin Contain cost and increase operational efficiencies through integration of technology and process reengineering
Mobilise deposits	Mobilise deposits Improve relationship with high-net-worth individuals through personalised service to attract larger deposits Optimise the use of social media platform and direct marketing to reach target markets for product promotions Digital content marketing campaigns to identified customer segments Collaborate with Sarvodaya Societies to increase village level penetration through joint promotional campaigns Collaborate with Sarvodaya Societies to increase village level penetration through joint promotional campaigns Introduce new products Incentivise top performers
Improve portfolio quality	Improve credit evaluation Harness technology for improved credit supervision and improve recoveries
Rebalance credit portfolio	Expand the collateral-backed lending portfolio for improved credit quality Move into larger-ticket size lending backed by collateral Increase average loan size of lending Expand gold loans through expansion and aggressive marketing
Optimise funding sources	Optimise the mix of long-term and short-term funds to eliminate maturity mismatch. Explore opportunities for off-shore funding. Improve monitoring and allocate appropriate resources to prioritise savings deposits build-up.
Balance product mix	Change products concentration to suit the current interest rate environment and economic condition. Develop new products giving a balance between risks and returns, develop markets and profitable niche markets.

## PERFORMANCE OF BUSINESS LINES

### Lending Products

During the financial year 2021-22, total lending grew by 25.03% to LKR 10,494.70 Mn, from LKR 8,381.10 Mn one year ago.

It must be noted that SDF's lending activities are restrained by the Sarvodaya principles. SDF does not lend towards activities deemed anti-social and/or inhumane. These excluded sectors include butchery, alcohol, drugs and casinos.

The composition of the lending portfolio changed during the year, due to the sustained growth in leasing, gold loans and bulk lending to Sarvodaya Societies, and the continued decline in the SME and microcredit portfolios. During the current year, housing and other loan categories also declined due to the unfavourable market conditions.

The contraction in the SME and microcredit sectors are due to the strategic decision to rebalance the lending portfolio towards lower risk, collateral-based lending, in response to the unstable economic conditions within the country from 2019 to date. The long-term business strategy is to maintain a minimum share of 70% of collateral-backed lending, while maintaining microlending at around 30%. The change in lending policy also resulted in the average loan size increasing during the current year. The share of gross portfolio between LKR. 500,000 to LKR. 1.0 Mn decreased to 29% from 30%, and the share of gross portfolio of over LKR 1.0 Mn lending increased to 47% from 43% in the previous year.

Leasing remained SDF's the largest lending category, and accounted for the major share of 46% of the total lending portfolio.

SDF offers a range of different lending products to the market as listed in the table below.

Product	Gross Portfolio As at 31st March 2022 (LKR Mn)	Gross Portfolio As at 31st March 2021 (LKR Mn)	Portfolio Growth (%)	% of total lending
Leasing	4,938.53	3,084.41	60%	46%
Gold Loans	1,047.19	388.88	169%	10%
SME	1,585.93	1,625.20	-2%	15%
Micro business loans	224.83	355.84	-37%	2%
Micro personal loans	536.43	744.01	-28%	5%
Housing	1,102.58	1,198.37	-8%	11%
Bulk loans to Sarvodaya Societies	488.10	339.30	44%	5%
Cash backed loans	512.46	540.04	-5%	5%
Others	58.59	117.97	-50%	1%

### Portfolio Composition 2022 vs 2021 (%)



### LEASING

SDF entered the leasing market in 2017 and as at the end of the current financial year, leasing had become the largest and fastest growing component of the Company's lending portfolio. The leasing sector revived during the low interest regime which prevailed for most of the 2021-22 financial year, with high demand from the agriculture sector for agri-equipment leases, which is SDF's main leasing market.

## GOLD LOANS

There was high demand for gold loans during the year by individuals as well as businesses, for quick cash requirements. However, the major portion of SDF's gold loan portfolio is directed towards businesses in the form of short-term working capital support, instead of consumption lending for individuals. In this extremely competitive market segment, SDF's gold loan portfolio grew by 169% year-on-year reaching LKR 1.05Bn, which is 10% of the total lending portfolio. The gold loan market has grown exponentially within the past 12 months and has become highly price competitive. The strong growth of SDF's gold loan business demonstrates a high level of trust in SDF by the public to give them a fair interest rate, as well as good value and security for their gold.

## BULK LOANS TO SARVODAYA SOCIETIES

Sarvodaya Shramadana Societies are an intermediary for SDF to disburse credit to village businesses. SDF supplies bulk loans to the Societies, which are then redistributed at a very low margin, among Society members. The 5,400 Societies have a membership base of around 800,000 across the country. Society lending is characterised by its high repayment rates, due to the high level of knowledge about the end customers. These loans have an exceptional Non Performing Loan ratio of below 1% and a 30 day portfolio risk ratio of below 1%.

Loans up to the value of LKR 500,000 is distributed directly by Societies to their members, and requests for larger loans are redirected to SDF branches. During the financial year 2021-22, loans to Societies increased by 44% year-on-year, to LKR 488Mn and the share of portfolio increased to 5% from, 4% last year.

## SME AND MICRO LOANS

SME and micro lending were curtailed during the year, to protect against the impacts of the COVID pandemic. Many small businesses and micro enterprises could not regain lost markets and faced difficulties in repaying existing loans. Therefore, while supporting existing customers with deferments and advisory services, SDF curtailed exposure to these sectors and pushed growth in other sectors, such as leasing and gold loans, which are fully asset backed. The SME portfolio shrank by 2% to LKR 1.59Bn, from LKR 1.63Bn in the previous financial year, while the microfinance portfolio too, declined by 31% to LKR 761.28Mn from LKR 1.09Bn. SME loans accounted for 15% of the total lending portfolio, down from 19% one year ago, while the share of microloans declined to 7% from 13% in the previous financial year.

Micro lending comprises micro business loans, micro individual loans and bulk loans given to Sarvodaya Societies. Over the years, SDF has increased the average ticket-size of micro loans and added new customers, which has expanded the micro customer base. A majority share of micro loans recipients are

women and accounted for 45% of total micro loan recipients. Micro loans disbursed by SDF branches are between LKR 500,000 to LKR 1 Mn, while loans above the value of LKR 1 Mn are classified under SME lending.

The SME and micro sector gross NPL's stood at 26.05% and 12.57% respectively, as at end March 2022, increase from 20.0% and 12.32%, as at end March 2021. The total value of SME and micro loans covered under the Central Bank moratoriums for COVID affected businesses came to LKR 141 million as at end March 2022, and accounted for 1% of the total lending portfolio value collectively. The moratorium period has now ended, and SDF is focussing on the recovery of these loans.

## Deposits

The total deposit base grew by LKR 177.15 Mn during the year reaching LKR 4,729.10 Mn, despite the low interest environment that prevailed for much of the year. While there was a shift in funds towards higher return investments, SDF maintained a loyal customer base with a customer retention of 83%.

The Company's Fixed Deposits (FD) portfolio increased by 3.68% to LKR 121.6Mn, while the savings base increased by 4.46% to LKR 55.52Mn. FDs for longer tenure (12 months and above) increased, while the concentration of shorter tenure FD's (3, 6 and up to 12 months) declined, compared to the previous year. The reduction in shorter term FD's is also partly due to the fact that the rate differential between FD's and savings was minimum, for most of the year which prompted many retail customers to move their investment into a more liquid form during these uncertain times.

The society savings base increased by 2% year on year, totalling to LKR 229.07 Mn as at end March 2022, and represented 18% of the total deposit base.

The savings to deposits ratio stood at 27.51% compared to 27.36% in the previous financial year.

Product	2022 LKR '000	2021 LKR '000
Savings	1,300.81	1,245.29
Fixed Deposits (FD)	3,428.28	3,306.65
<b>Total Base</b>	<b>4,729.09</b>	<b>4,551.94</b>

## ANALYSIS OF STATEMENT OF PROFIT OR LOSS

### Profitability of the Company

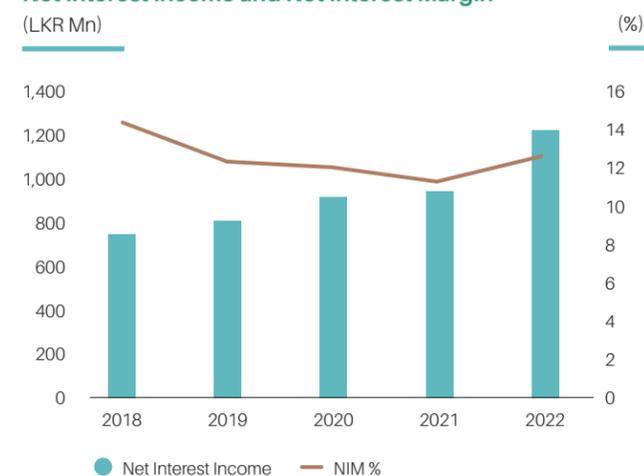
Despite challenges throughout the review period, the Company was able to mark a profit after tax of LKR 215.47 Mn, which was a 17.51% improvement compared to the profit after tax of LKR 183.37 Mn reported in the previous year. The growth in interest income due to high lending volumes during the last three quarters of the year was the major factor for the increase in profits during the year under review.

For the year ended 31st March	2022	2021	Increase (Decrease)	Change
	LKR Mn	LKR Mn	LKR Mn	%
Net interest income	1,246.98	961.40	285.58	29.70%
Non-interest income	89.49	158.80	(69.31)	-43.65%
Operational expenses	788.92	703.90	85.02	12.08%
Impairment	186.68	60.09	126.59	210.67%
Tax	150.19	172.84	(22.65)	-13.10%
PAT	210.68	183.37	27.31	14.89%

## NET INTEREST INCOME

The Company net interest income was LKR 1,246.98 Mn for the year 2021-22, compared to LKR 961.40 Mn for the year 2020-21, representing a growth of 29.70% (LKR 285.58 Mn). This increase is primarily due to growth of interest income compared to the last financial year and decrease in interest expenses.

### Net Interest Income and Net Interest Margin



The Company's interest income was LKR 1,785.24 Mn for the year ended 2021-22, compared to LKR 1,546.98 Mn for the financial year 2020-21, which is an increase of 15.40%. Interest income increased due to the surge in lending during last three quarters of the current financial year, compared to last financial year.

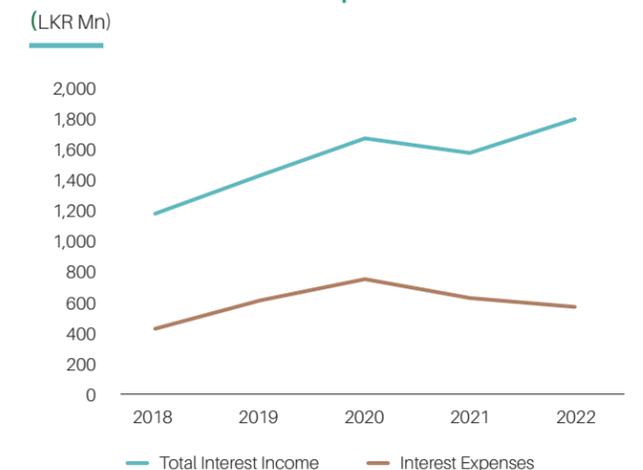
### Interest income and growth



We utilised funds from the IPO in our operations, resulting in the decrease in interest expenses to LKR 562.12 Mn in current financial year, compared to LKR 623.35 Mn in the financial year 2020-21, which is a 9.82% decline of interest expenses.

The ratio of interest income to interest expense improved compared to the last financial year due to the overall increase in interest income at a rate higher than the decrease in the cost of funds.

### Interest income to interest expense



## NON-INTEREST INCOME

Fees and commission income grew by 77.29% compared to the last financial year as a result of higher disbursements during the year. Other income reduced, mainly due to the reduction in valuation gains from revaluation of Investment Properties during the financial year. Overall contribution of non-interest income to interest income dropped to 4%, mainly due to the reduction in valuation gains.

### Non-interest income



## OPERATIONAL EXPENSES

Operational expenses increase to LKR 800.41 Mn during the financial year under review representing an increase of 13.71% compared to the previous financial year. This increase is mainly due to personnel expenses increasing with the new recruitments and salary increments. Other administration expenses also increase during the year, due to increases in operational activities (particularly maintenance expenses and marketing expenses) during the financial year under review.

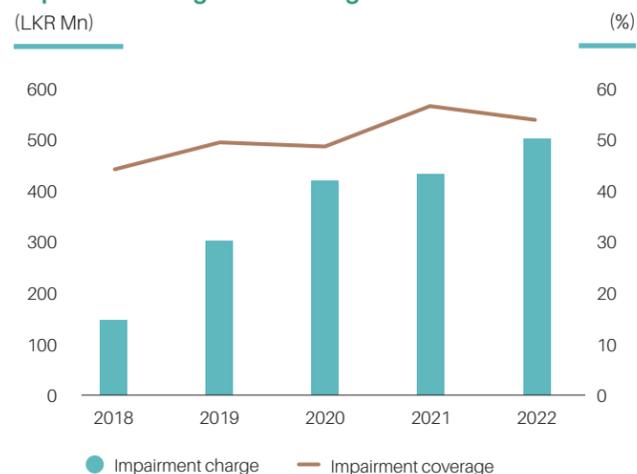
### Operational Expense vs Cost to Income Ratio



## IMPAIRMENT

Impairment charges and other losses were LKR 510.47 Mn during the financial year under review, which represents a 17.16% improvement compared to the previous financial year. This is mainly due to adverse macroeconomic conditions that prevailed in the country. In addition, the Company strengthened recovery operations during the year, which resulted in lower NPA ratios compared to the previous financial year. The impairment coverage ratio has improved with the strengthening of recoveries.

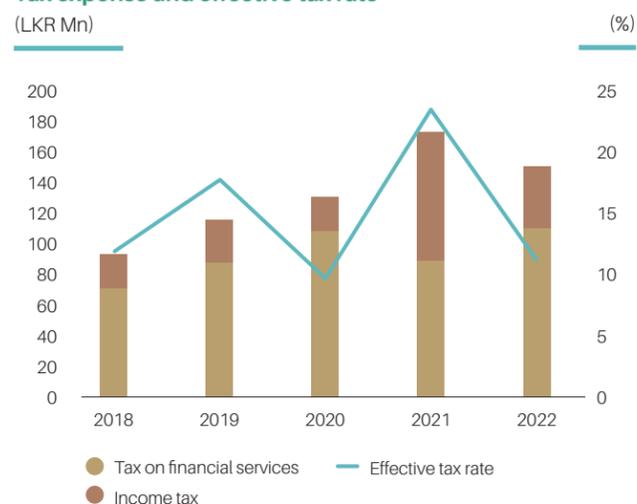
### Impairment charge and coverage



## TAX

Tax payments during the year reduced due to tax concessions for listing on the Colombo Stock Exchange before December 31st 2021. Therefore, SDF charged LKR 159.80 Mn in taxes in the current financial year compared to LKR 172.84 Mn in the previous financial year.

### Tax expense and effective tax rate



## FINANCIAL STRENGTH - ANALYSIS OF STATEMENT OF FINANCIAL POSITION

### TOTAL ASSETS

SDF recorded its highest ever asset value to date, that amounted to LKR 11,174.48 Mn compared to LKR 9,036.60 Mn in the previous financial year, representing a 23.66% growth. Interest earning assets accounted for 94.20% of the total assets as at 31st March 2022 (93.15% as at 31st March 2021). The expansion in total assets and interest earning assets was mainly due to the growth of the lending portfolio as a result of increased disbursements during the year.

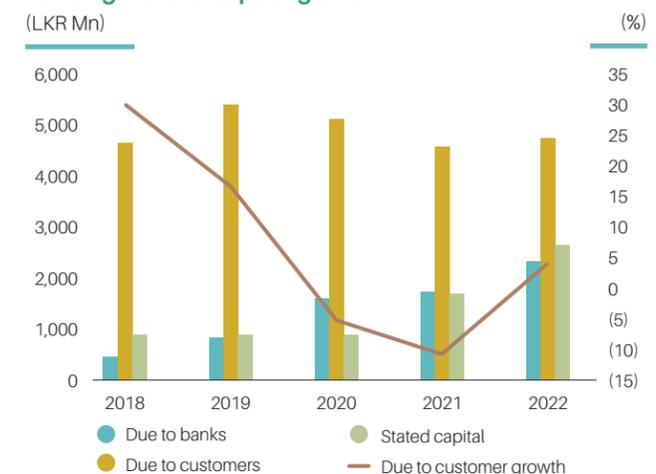
### Total Assets and Return on Assets



## FUNDING MIX

During the year under review, the Company listed in the CSE raising LKR. 1Bn in new capital. Also, the Company attracted more deposits which is 3.89% growth compared to the previous financial year. Due to banks also increased during the year, to support growth in lending.

### Funding Mix and deposit growth

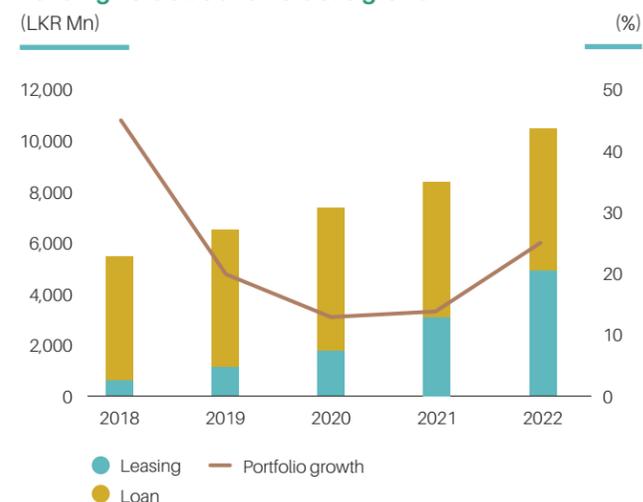


As at 31 March	2018	2019	2020	2021	2022
Due to banks (LKR Mn)	463.28	835.87	1,595.04	1,729.62	2,320.18
Due to customers (LKR Mn)	4,624.86	5,385.34	5,101.98	4,551.95	4,729.10
Stated capital (LKR Mn)	890.00	890.00	890.00	1,696.11	2,696.11
Due to customer growth %	29.78%	16.44%	-5.26%	-10.78%	3.89%

## LENDING PORTFOLIO

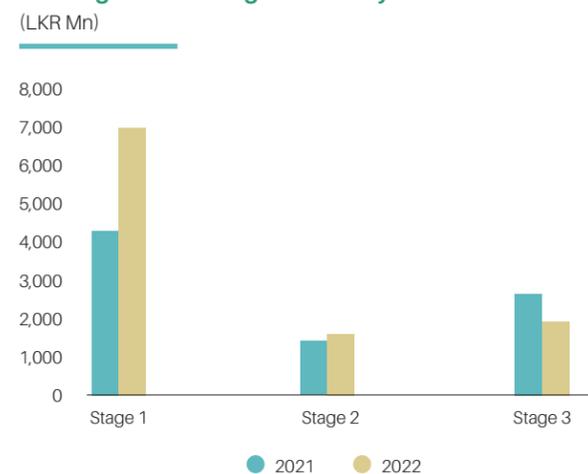
The Company's net lending portfolio stood at LKR 10,494.70 Mn as at the end of the year 2021-22 recording a growth of 25.03% compared to the previous year. This is due to the increase in lease receivables by 60.11% compared to the previous financial year.

### Lending Portfolio and Portfolio growth



During the year, the Company expanded the lending portfolio, which increased the Stage 1 portfolio by 67% in the current financial year, compared to the 51% increase in the previous financial year. Impairment provisions were LKR 510.47 Mn as at 31st March 2022, compared to LKR 435.70 Mn as at 31st March 2021 due to ongoing macroeconomic uncertainty and the growth in our lending portfolio.

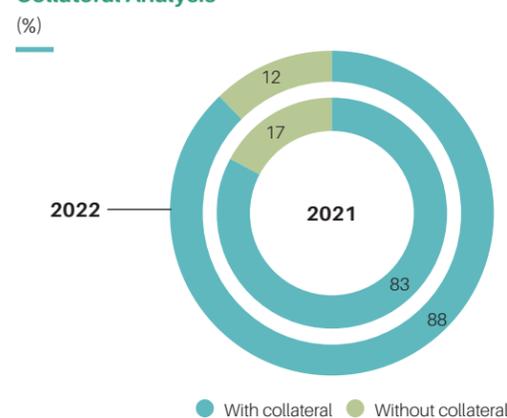
### Lending Portfolio stage wise analysis



### LENDING PORTFOLIO - COLLATERAL ANALYSIS

SDF's long-term business strategy is to maintain a minimum share of 70% of collateral-backed lending. This was an important strategic shift in SDF's business model over the last couple of years which resulted in a notable shift in collateralised and uncollateralised mix in the gross portfolio. Accordingly, the gross portfolio, backed by collateral, increased further to 88.32% as at the end of the current year from 83.32% in the previous year.

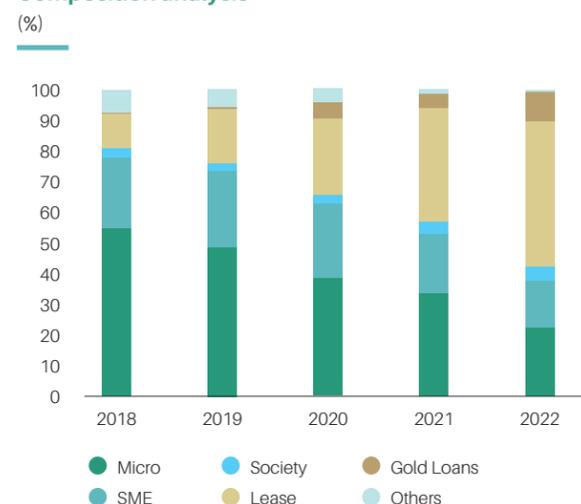
### Collateral Analysis



### LENDING PORTFOLIO - COMPOSITION ANALYSIS

The new growth strategies of aggressively moving into collateral-based lending and focussing more on leasing, contributed towards expanding the gross portfolio value by 25.03% to LKR 10.49Bn compared to the LKR 8.39 Bn in the previous year. The key products of SME and micro loans contributed 38% to the gross portfolio while leasing contributed 47%.

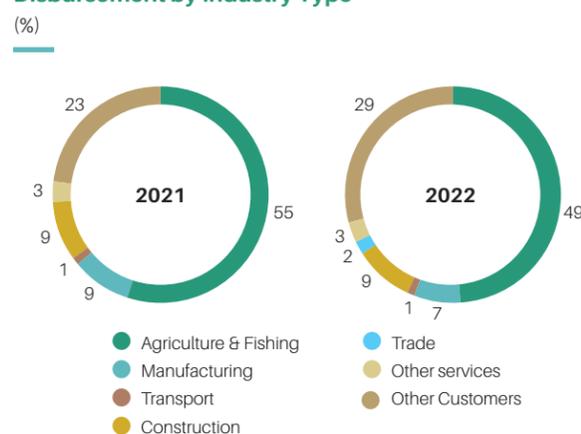
### Composition analysis



### DISBURSEMENT BY INDUSTRY TYPE

The agriculture sector remained the largest recipient of SDF credit, absorbing 49% of total disbursements during the year, which was LKR 3.91Bn. This is an increase of 87% from the previous year. While tourism, and construction sectors continued to struggle during the year, the impact on SDF remained low, as incremental disbursements on those sectors are marginal compared to previous financial year. The growth in business in 2021-22, was driven by the agro based and collateral based lending products.

### Disbursement by Industry Type



### FINANCIAL STRENGTH - ANALYSIS OF STATEMENT OF CASH FLOWS

The Company carefully manages liquidity and funding to support business strategies and meet regulatory requirements at all times, including times of stress. This can be seen in the reduction in operating cash flow in operating activities from LKR 918.03 Mn, to LKR 1,405.80 Mn. The increase in profits indicate the ability to convert profits into cash. Cash generated from operating activities is mainly used to settle dues to banks.

### FINANCIAL STABILITY

#### Capital Base

The primary objective of the company's capital management policy is to ensure compliance with externally imposed capital requirements and maintain strong credit ratings and capital ratios to support business and maximise shareholder returns.

Our Tier 1 and total capital ratios of 29.17% and 30.42% respectively, were well above the new capital adequacy requirements laid down by the Finance Business Act Direction No. 3 of 2018, reflecting the Company's financial strength.

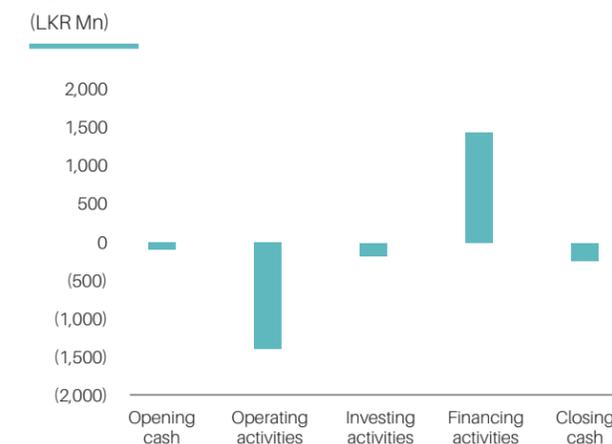
	2022	2021	Industry 2022 *Dec-21	Regulatory Minimum
Tier 1 Capital ratio	29.17	21.58	15.02	7%
Total Capital ratio	30.42	21.80	16.64	11%

### LIQUIDITY POSITION

The Company was able to maintain liquidity well above regulatory minimums during the financial year.

	2022	2021	2020	2019	2018
Regulatory minimum liquid assets (LKR Mn)	553.0	338.3	623.1	619.2	542.6
Available liquid assets (LKR Mn)	634.3	493.5	661.3	741.7	581.7

### Cash Flows



## ECONOMIC IMPACT

### GRI 201-1

#### Direct economic value generated and distributed

Total economic value created by SDF grew by 10.72% to LKR 1.93Bn in the financial year 2021-22, from LKR 1.74 Bn in previous financial year.

This value has been distributed among our stakeholders as stated below.

#### Economic Value Added Statement (EVA) (LKR Mn)

For the year 31 March	2022	2021	2020	2019	2018
<b>Invested Equity</b>					
Total equity	3,305	2,181	1,196	1,099	1,131
Add: Cumulative Loan Loss Provision/ Provision for Impairment	567	484	424	304	149
<b>Total</b>	<b>3,872</b>	<b>2,665</b>	<b>1,620</b>	<b>1,403</b>	<b>1,280</b>
<b>Earnings</b>					
Profit attributable to shareholders	215	183	102	41	92
Add: Impairment for loans and receivables and other losses	193	60	119	94	89
<b>Total</b>	<b>408</b>	<b>243</b>	<b>221</b>	<b>135</b>	<b>181</b>
Cost of equity (Based on 12 months weighted average T-Bond rate plus 2% for risk premium)	12%	7%	10%	13%	12%
Cost of average equity (Economic Cost)	392	150	151	174	149
<b>Economic value added</b>	<b>16</b>	<b>93</b>	<b>70</b>	<b>(39)</b>	<b>32</b>

#### Market Value Added (MVA) (LKR Mn)

For the Year ended 31 March	2022	2021	2020	2019	2018
<b>Market Capitalisation</b>					
Market Value of Equity	1,869.95	NA	NA	NA	NA
Less: Equity Owners' Funds					
Shareholders' Funds	3,304.80	2,181.38	1,195.68	1,098.54	1,130.81
Market Value Added/(Destroyed)	(1,434.85)	NA	NA	NA	NA

#### Direct Economic Value Generated and Distributed (5 years) (LKR Mn)

	2022	%	2021	%	2020	%	2019	%	2018	%
<b>Economic Value added</b>										
Interest income	1,822.32		1,584.75		1,681.68		1,433.37		1,179.56	
Other income	108.09		158.79		120.76		141.87		141.20	
<b>Total Economic value generated</b>	<b>1,930.41</b>		<b>1,743.54</b>		<b>1,802.44</b>		<b>1,575.24</b>		<b>1,320.76</b>	
<b>Economic value distributed</b>										
<b>To depositors and lenders</b>										
Interest expenses	562.12		623.35		750.12		606.62		416.60	
<b>Total to depositors</b>	<b>562.12</b>	<b>29.12</b>	<b>623.35</b>	<b>35.75</b>	<b>750.12</b>	<b>41.62</b>	<b>606.62</b>	<b>38.51</b>	<b>416.60</b>	<b>31.54</b>
<b>To employees</b>										
Salaries and other benefits	440.42		381.67		363.24		356.17		328.06	
<b>Total to employees</b>	<b>440.42</b>	<b>22.81</b>	<b>381.67</b>	<b>21.89</b>	<b>363.24</b>	<b>20.15</b>	<b>356.17</b>	<b>22.61</b>	<b>328.06</b>	<b>24.84</b>
<b>To the government</b>										
Income tax	53.24		9.87		17.34		-		9.35	
VAT on FS	106.55		89.36		108.02		87.76		70.75	
<b>Total to the GVT</b>	<b>159.80</b>	<b>8.28</b>	<b>99.23</b>	<b>5.69</b>	<b>125.36</b>	<b>6.96</b>	<b>87.76</b>	<b>5.57</b>	<b>80.10</b>	<b>6.06</b>
<b>To suppliers</b>										
Other operating expenses	291.83		364.19		293.53		330.65		260.35	
Impairment charges	192.62		60.09		119.32		94.01		89.12	
Depreciation and amortization	36.38		47.16		53.73		58.14		58.19	
<b>Total to suppliers</b>	<b>546.69</b>	<b>26.98</b>	<b>471.44</b>	<b>27.04</b>	<b>466.58</b>	<b>25.89</b>	<b>482.80</b>	<b>30.65</b>	<b>407.66</b>	<b>30.87</b>
Economic value retained	247.26	12.81	167.85	9.63	97.14	5.38	41.89	2.66	88.34	6.69
<b>Total Economic Value Distributed</b>	<b>1,930.41</b>	<b>100.00</b>	<b>1,743.54</b>	<b>100</b>	<b>1,802.44</b>	<b>100</b>	<b>1,575.24</b>	<b>100</b>	<b>1,320.76</b>	<b>100</b>

### GRI 203-2

#### Significant indirect economic impacts

SDF redirects profits into welfare projects through our parent Sarvodaya Movement. A major portion of our profits are distributed as dividends to the Sarvodaya Movement, which channels these funds into under-served communities and vulnerable communities through a range of welfare programmes. During the financial year 2021-22, we contributed LKR 40.94Mn as dividends to Sarvodaya and its entities.

## Dividend payments to Sarvodaya Movement and its entities 2018-2022

	2022	2021	2020	2019	2018
Dividend applicable for the year	40,942,250	Dividends withheld due to macro uncertainty.	Dividends withheld due to macro uncertainty.	Dividends withheld due to macro uncertainty.	27,717,567

Due to our large footprint in the rural sector, our indirect economic impacts, from direct business activities, are mainly in the form of facilitating socio-economic development in rural areas and under-served parts of the country. Through our lending we help create employment opportunities through the development of businesses and empowering women. We also engage in CSR activities to support community welfare.

### SDF LENDING BY REGION

The Western province accounted for only 21% of total portfolio in value terms, which means the majority of funds were channelled into micro, small and medium businesses in the regions and rural areas.

### GROSS PORTFOLIO BY PROVINCE (%)

Province	2022		2021		% change
	Value (Mn)	(%)	Value (Mn)	(%)	
Western Province	2,176	21%	1,965	23%	11%
Southern Province	1,186	11%	957	11%	24%
Central Province	1,071	10%	836	10%	28%
North Central Province	1,463	14%	1,030	12%	42%
Uva Province	1,103	11%	747	9%	48%
Sabaragamuwa Province	892	9%	750	9%	19%
Eastern Province	1,169	11%	930	11%	26%
North Western Province	1,160	11%	904	11%	28%
Northern Province	274	3%	275	3%	0%
<b>Total</b>	<b>10,495</b>	<b>100%</b>	<b>8,394</b>	<b>100%</b>	<b>25%</b>

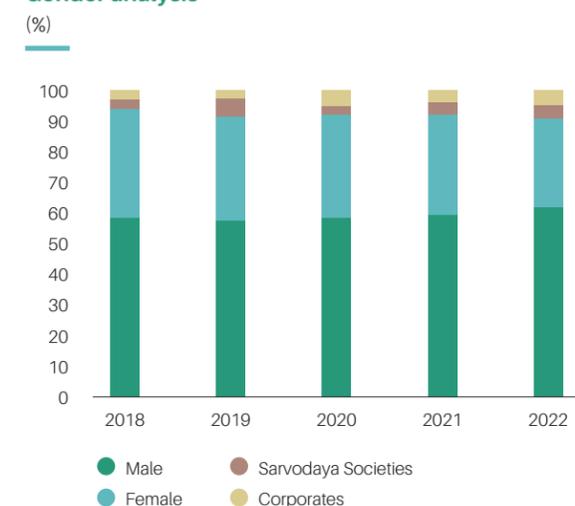
As part of our development financing services we provide many support services, free of charge, including training and market connections with advisory support, to upgrade rural businesses to the next level and add value to products. In the agriculture sector, SDF provides access to agricultural equipment that have helped modernise the sector and enhanced sector productivity. These efforts contribute towards developing entrepreneurs and expand rural economies, which has contributed towards employment generation.

By supplying palmtop computers to 100 Sarvodaya Societies, we have also promoted digital financial transactions in rural areas, where Internet penetration is extremely low, thereby contributing to bridge the urban-rural digital divide.

## SDF LENDING TO WOMEN

Through the supply of credit and business training for women, SDF has helped women generate sustainable incomes to support their families and educate their children. Our micro loans have assisted many women entrepreneurs and micro businesswomen to grow their businesses to a sustainable level. This is demonstrated by individual female borrowers representing 29% of total loan customers.

### Gender analysis



Please also refer our Social Capital chapter and Local Community Engagement for more information on activities pertaining to indirect economic impacts.

### GRI 207-1

#### Approach to tax

As a development finance company and a subsidiary of the Sarvodaya Movement, which is entirely dedicated to social welfare in Sri Lanka, SDF's tax policy is full compliance with all applicable taxes to support national welfare and development efforts.

For the year ended 31 March	2018 LKR Mn	2019 LKR Mn	2020 LKR Mn	2021 LKR Mn	2022 LKR Mn
VAT on Financial Services	62.41	61.97	70.96	88.99	106.55
NBT on Financial Services	8.35	8.26	6.08	0.37	-
Debt repayment levy	-	17.53	30.98	-	-
Total tax on Financial Services	70.76	87.76	108.02	89.36	106.55
Income tax	21.91	27.74	22.35	83.48	53.24
Total	92.67	115.50	130.37	172.84	159.79
Profit before tax	184.86	156.72	232.09	356.20	375.26
Effective tax rate	12%	18%	10%	23%	14%

With the exception of standard tax deductions, SDF does not have a tax strategy to either shelter income or reduce the tax payouts, as the Company believes in supporting Sri Lanka's social welfare programmes. SDF's sustainable business strategies are designed to accommodate taxes, and no tax evasion or tax avoidance measures are adopted as a policy by the Company. Internal control systems are in place for continuous oversight on the Company's accounts, in addition to independent external audits to ensure correct tax calculations for the financial year.

No tax deductions have been claimed on the basis of charitable contributions and SDF contributed a total tax payout of LKR 147.36 Mn to the national exchequer in 2021-22.

SDF's tax expense consists of two main elements, namely tax on financial services and income tax. Tax on financial services increased during the financial year under review, due to the increase in VAT on Financial Services to 18% from 1st January 2022 onwards. (15% in 2021).

However, as a measure of promoting new listings on the Colombo Stock Exchange(CSE), a 50% tax concession for the years 2021-2022 was proposed for companies listing on the CSE before 31st December 2021, while maintaining a corporate tax rate of 14% for the subsequent three years upon listing. Since the Company gained this advantage by listed on the CSE before 31st December 2021, the applicable tax rate reduced to 12% in 2021-22, thereby reducing the tax payout for the year.

## OVERVIEW

### 1. Significant

Investors include shareholders of the Company. Investors play a major role as key stakeholders, paving the way for an organization's progress and value creation. They are the main source of financial capital; equity capital. Our shareholders provide equity capital and respond proactively to strategic decisions while expecting a reasonable return on their investment. The company has always maintained a mutually beneficial relationship with investors and shareholders to drive the sustainable development of the business. Investors are regularly informed of the company's performance through various digital and physical channels such as Annual General Meetings, Annual Reports, Interim Financial Statements, Colombo Stock Exchange (CSE) announcements, press conferences, media releases, etc.

### 2. Expectation

Given that there are multiple avenues for investors' funds to be invested, they have certain expectations when those funds are invested in us. We recognize that this expectation is primarily related to their investment returns and potential risks. To meet (and exceed) their expectations, we need to achieve the best risk-reward trade-off. This in turn requires certain performance standards to ensure sustainable value creation underpinned by sound corporate governance and risk management systems.

### 3. SDF responsibility

We have a responsibility to deliver a satisfactory return on the capital invested in a sustainable manner.

#### ii. How SDF engage with investors

Method	Frequency
AGM	Annually
Annual report	Annually
Interim financial statements	Quarterly
Semiannual paper publication	Semiannually
Corporate website	Ongoing
Disclosures in CSE	As required
Press release	As required
Social media	Ongoing

#### iii. SDF share trading

Monthly or Quarterly	Q1	Q2	Q3	Q4
Market capitalization	N/A	N/A	1,468,576,987	807,178,538

Information for 1st and 2nd quarters were not available since SDF has been listed on 14 December 2021.

#### iv. Share information

Monthly or Quarterly	2021/22	Q3	Q4	2020/21
Share price				
- Highest	26.00	26	21.60	N/A
- Lowest	11.70	17.70	11.70	N/A
- Last traded price	19.40	19.50	12.50	N/A
Number of transaction	3,985	N/A	3,985	N/A
Number of shares traded	7,427,295	N/A	7,427,295	N/A
Value of shares traded	147,926,926.20	N/A	147,926,926.20	N/A

#### v. Key investor ratios

Key investor ratios	2022	2021	2020	2019	2018
Earnings per share	1.86	2.55	1.51	0.61	1.19
Return on equity	7.85%	10.86%	8.87%	3.70%	8.15%
Net Assets per share (Rs.)	22.09	21.43	17.71	16.27	16.75
Shareholder funds	3,304,795,115	2,181,385,226	1,195,679,266	1,098,545,644	1,130,809,809
Price earnings (PE)	6.74	N/A	N/A	N/A	N/A
Price to book value	56.58%	N/A	N/A	N/A	N/A
Earnings growth	17.51%	80.26%	146.79%	-55.29%	366.92%

#### vi. Composition of equity

	2022	2021	2020	2019	2018
Stated capital	2,696,113,032	1,696,113,020	890,000,020	890,000,020	890,000,020
Reserves	608,682,082	485,272,206	305,679,245	208,545,624	240,809,789
Total shareholders' funds	3,304,795,115	2,181,385,226	1,195,679,266	1,098,545,644	1,130,809,809

#### vii. Movement of the shares presented in stated capital

Year ended	No of shares opening	Addition	Cum no of shares	Stated capital at end of FY
2011/12	54,000,002	Nil	54,000,002	540,000,020
2012/13	54,000,002	Nil	54,000,002	540,000,020
2013/14	54,000,002	Nil	54,000,002	540,000,020
2014/15	54,000,002	13,500,004	67,500,006	890,000,020
2015/16	67,500,006	Nil	67,500,006	890,000,020
2016/17	67,500,006	Nil	67,500,006	890,000,020
2017/18	67,500,006	Nil	67,500,006	890,000,020
2018/19	67,500,006	Nil	67,500,006	890,000,020
2019/20	67,500,006	Nil	67,500,006	890,000,020
2020/21	67,500,006	36,641,500	104,141,506	1,696,113,020
2021/22	104,141,506	45,454,546	149,596,052	2,696,113,032

## viii. Analysis of shareholders

Shareholding	No of shareholders	Shareholder %	No of shares	Share %
Less than or equal to 1000	480	20.13	200,140	0.13
1,001 to 10,000	1063	44.57	6,488,302	4.34
10,001 to 100,000	795	33.33	20,083,517	13.42
100,001 to 1,000,000	32	1.34	7,594,300	5.08
Over 1,000,000	15	0.63	115,229,793	77.03
<b>Total</b>	<b>2,385</b>	<b>100.00</b>	<b>149,596,052</b>	<b>100.00</b>

## ix. Composition of shareholders

Shareholding	No of shareholders	Shareholder %	No of shares	Share %
Resident individual	1,063	44.57	10,675,324	7.14
Non-resident individual	1	55.35	82,000	0.06
Resident institutions	1,320	0.04	125,338,724	83.78
Non-resident institutions	1	0.04	13,500,004	9.02
<b>Total</b>	<b>2,385</b>	<b>100.00</b>	<b>149,596,052</b>	<b>100.00</b>

## x. Public holdings

The Company's public holding stood at 43.38% as at 31 March 2022 and the number of shareholders representing the public holding was 2,377. There was no significant change in the Company's public holding compared to the previous quarter. However, the number of shareholders representing the public holding has decreased by 59 when compared to the previous quarter.

## xi. Float adjusted market capitalization

The float adjusted market capitalization as at 31 March 2022 - Rs. 807,178,537.50. (As at 31 December 2021 - Rs. 1,468,576,987)  
The Float adjusted market capitalization of the Company falls under Option 5 of Rule 7.14.1 (a) of the Listing Rules of the Colombo Stock Exchange and the Company has complied with the minimum public holding requirement applicable under the said option.

## xii. Share price movement

Following table shows share price movement for 3rd and 4th quarters. SDF was listed in 14 December 2021 therefore information on 1st and 2nd quarters not available.

Monthly or Quarterly	Q1	Q1	Q3	Q4
<b>Share price</b>				
- Highest	N/A	N/A	26.00	21.60
- Lowest	N/A	N/A	17.70	11.70
- Last traded price	N/A	N/A	19.50	12.50

## xiii. Twenty largest shareholders

No	Name of the shareholder	No of shares	%
1	Sarvodaya Economic Enterprises Development Services (Gte) Ltd	54,000,000	36.10
2	Gentosha Total Asset Consulting Inc.	13,500,004	9.02
3	Seylan Bank Plc/Janashakthi Capital Limited	11,365,000	7.60
4	Senthilverl Holding (Pvt) Ltd	6,900,000	4.61
5	Seylan Bank Plc/Senthilverl Holdings (Pvt) Ltd	5,261,965	3.52
6	Lanka Jathika Sarvodaya Shramadana Sangamaya	4,645,000	3.11
7	Ideal Automobile (Pvt) Ltd	4,382,246	2.93
8	Sanasa Life Insurance Company Ltd (Life)	3,579,900	2.39
9	Capital Trust Holdings Ltd	3,175,233	2.12
10	Second Janashakthi Investment Trust Limited	1,946,900	1.30
11	Janashakthi Ltd Account No. 1	1,797,700	1.20
12	Thalwila Pibidena Sarvodaya Shramadana Society	1,414,000	0.95
13	Sanasa General Insurance Company Ltd	1,108,445	0.74
14	NDB Capital Holdings Limited Account No-02	1,081,200	0.72
15	Mr. M.A.H. Esufally & Mrs. A.M. Moonesinghe	1,072,200	0.72
16	Mr. T.H. Rajudin	613,600	0.41
17	Mr. J.D. Ariyaratne	454,600	0.30
18	Macksons Holdings (Pvt) Ltd	454,500	0.30
19	Porathota Sarvodaya Shramadana Society	450,000	0.30
20	Kekunawela Sarvodaya Shramadana Society	450,000	0.30
21	Mr. W.T.D. Ganegama & Ms. N.H. Ariyaratne	365,000	0.24
		118,017,493	78.89
	Others	31,578,559	21.11
	<b>Total</b>	<b>149,596,052</b>	<b>100.00</b>

## xiv. Directors and CEOs shareholding

Name	Position	No of shares
Mr. Channa de Silva	Chairman/Non-Executive, Non Independent Director	323,200
Mr. Dhammika Ganegama	Non-Executive, Senior Independent Director	365,000
Mrs. Shehara De Silva	Non-Executive, Independent Director	26,600
Mr. Masayoshi Yamashita	Non-Executive, Non Independent Director	-
Mr. Chamindha Rajakaruna	Non-Executive, Non-Independent Director	-
Mr. Amrit Kanagaretna	Non-Executive, Independent Director	-
Mr. Senthil Nandhanan Senthilverl	Non-Executive, Non-Independent Director	-
Mr. J K D N Pushpakumara	Chief Executive Officer	86,700

## xv. Solvency

	2022	2021	Change %
Debt to equity	213.30%	287.96%	25.93
Tier I	29.17%	21.58%	35.17
<b>Total capital ratio</b>	<b>30.42%</b>	<b>21.80%</b>	<b>39.54</b>

## xvi. Material foreseeable risk factors

Information pertaining to the material foreseeable risk factors that require disclosures as per rule 7.6 (vi) of the Listing Rules of the CSE are discussed in the section on Risk Management.

## xvii. Material issues - employee and industry relations

There were no material issues pertaining to employee and industrial relations in regard to the Company that occurred during the year under review which require disclosures as per Rule No.7.6 (vii) on the Listing Rules of the CSE

## xviii. Inquiries by shareholders

Shareholders may contact the Company Secretary, to direct questions/comments or request publicly available information.

## xix. Utilization of funds raised via capital market

Following table shows the utilization of funds raised from IPO of SDF.

Objective as per prospectus	Amount allocated as per prospectus in Rs.'000	Proposed date of utilization as per prospectus	Amount allocated from proceeds in Rs.'000 (A)	% of total proceeds	Amounts utilized in Rs.'000 (B)	% of utilization against allocation (B/A)	Classification if not fully utilized including where the funds are invested
1. Improve the Core Capital and thereby Strengthen the Equity Base of the Company			Rs. 1 Bn new capital raised from the IPO and same we have fulfilled CBSL core capital requirement of Rs 2.5 Bn before 31 December 2021				
2. Part Finance the Growth in the Loan Portfolio of SDF	1,000	Before 30 June 2022	1,000	100%	1,000	100%	N/A



**51**  
BRANCHES

**2**  
RELOCATION

LKR **13.8** Mn  
INVESTMENT IN PPE

SDF's manufactured capital is limited to land and buildings, ATM machines, company owned vehicles, IT systems, and office equipment and furniture. During the year under review, we did not experience major changes to our stock of manufactured capital. However, this capital base will be augmented significantly in the new financial year to support growth plans.

# MANUFACTURED CAPITAL

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## LAND AND BUILDINGS

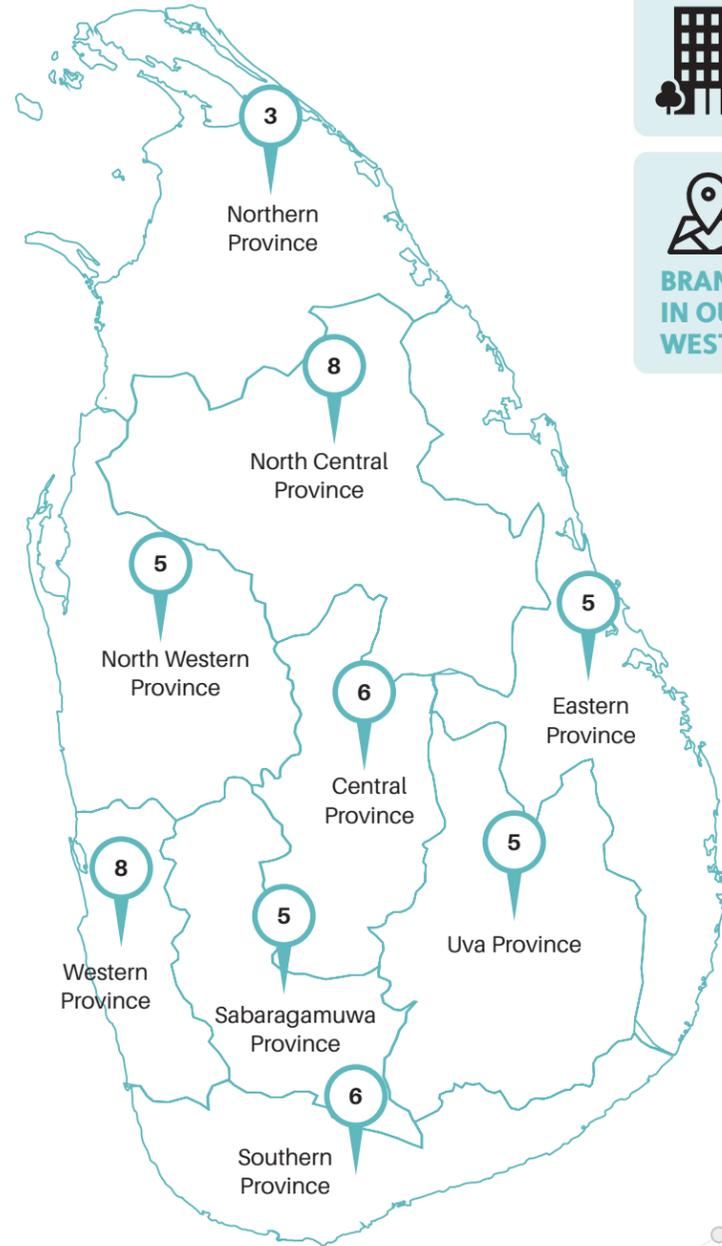
Our land and building assets refer to the SDF head office located in Borella, buildings housing SDF branches, land acquired from loan defaults, and 1 other land and building asset owned by SDF, located in Rawathawatte. The Rawathawatte property is treated as an investment property and is rented. The property was revalued during the 2021-22 financial year. Lands acquired from default customers will be disposed of, by reselling.

## SDF HEAD OFFICE

The SDF head office and land are strategically located in the high value area of Colombo 08, with easy public transport access to all parts of Colombo and the regions. The modern building is equipped with all modern amenities and many facilities for employees, including a canteen and recreation area.

## BUILDINGS HOUSING SDF BRANCHES

All 51 buildings housing SDF branches are rented properties, accounted as 'right of use assets.' The valuation of this stock did not experience significant changes during 2021-22, excluding routine maintenance costs.



**51**  
BRANCHES

**43**  
BRANCHES LOCATED IN OUTSIDE IN WESTERN PROVINCE

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## BRANCH RELOCATION



During the year Sarvodaya Development Finance relocated some of its branches in an effort to upgrade them and position them in a competitive business environment. Above pictures display two such branches opening up in an upgraded manner in two new locations. This will certainly provide customers easier access and greater convenience.

## ATM MACHINES

SDF operates one ATM machine at the head office in Borella but will expand the ATM network in the new financial year. SDF ATM machines are common machines and can be utilised by customers of other financial institutions as well.

## VEHICLES

SDF owns a limited fleet of 4 vehicles, as we encourage our employees to travel by public transport, which has a lower environmental impact, or use their own vehicles.

## OTHER FIXED ASSETS

All other fixed assets include SDF's computers, hand held devices for field staff and Sarvodaya Societies, and office equipment and furniture. The only significant purchase under this category, was the purchase of computers to facilitate business growth. These included 'servers' to enable volume growth and faster processing speeds.

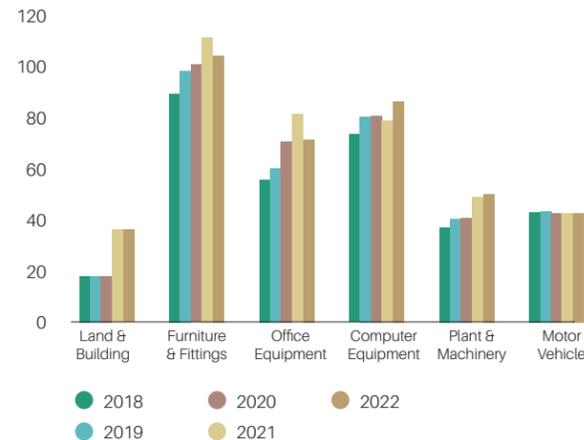
## INVESTMENT IN SDF'S MANUFACTURED CAPITAL

Type of manufactured capital	2018 LKR Mn	2019 LKR Mn	2020 LKR Mn	2021 LKR Mn	2022 LKR Mn
Land & Building	18.05	18.05	18.05	36.10	36.10
Furniture & Fittings	89.38	98.24	100.79	111.40	104.30
Office Equipment	55.88	60.21	70.64	81.40	71.64
Computer Equipment	73.56	80.57	80.81	78.98	86.50
Plant & Machinery	37.16	40.36	40.72	48.85	50.16
Motor Vehicle	43.13	43.33	42.75	42.75	42.75
Right of use assets	-	-	234.37	270.68	321.45
<b>Total</b>	<b>317.16</b>	<b>340.76</b>	<b>588.13</b>	<b>670.16</b>	<b>712.90</b>

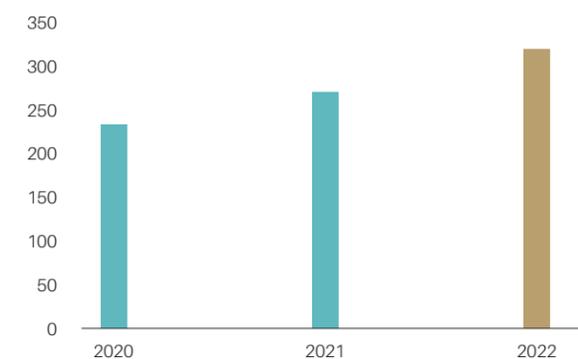
# MANUFACTURED CAPITAL

## GROWTH IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS 2018- 22

### Property, Plant and Equipment (LKR Mn)

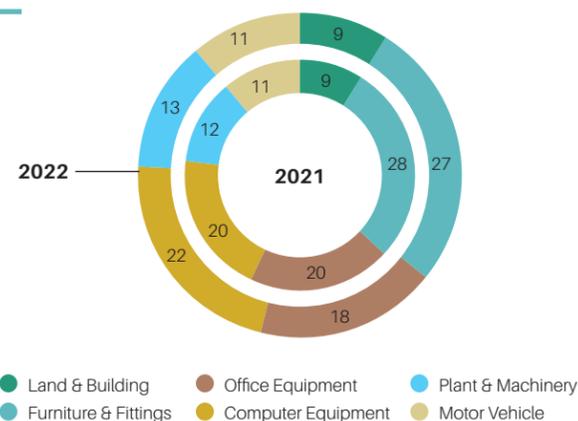


### Right-of-Use Assets (LKR Mn)

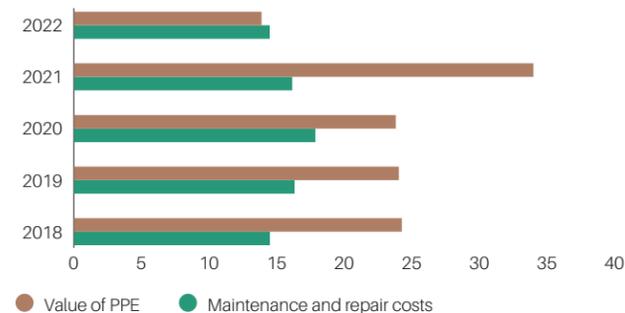


## COMPOSITION OF PROPERTY, PLANT AND EQUIPMENT 2020/21 VS 2021/22

### Composition (%)



## Investment in SDF's Manufactured Capital (LKR Mn)



## PLANS FOR THE FUTURE

We anticipate a significant increase in the value of our manufactured capital in the new financial year due to higher valuations, and also due to new purchases to facilitate business expansion.

The SDF ATM network will be expanded by the addition of 10 more ATM's that will be mainly located outside the Western Province.

During the current financial year, the Central Bank authorised the conversion of 21 SDF Service Centres into fully fledged branches. These Service Centres will be elevated to branch level in the new financial year, by relocating to new more spacious buildings, and enhancing the external appearance and internal facilities to accommodate increased business volumes.

Our digitisation strategy remains a priority for the new financial year to push growth while containing costs, and the budget for IT has been significantly expanded for the new financial year. We will be investing in upgrades to the core banking system to enhance transaction volumes and to accommodate new products. New computers and handheld devices will be purchased to replace obsolete machines and support branch and field level efficiencies. We will also invest in mobile banking and will call for tenders in the new financial year to develop customised applications, while also upgrading the SDF website to support e-commerce transactions.

# INTELLECTUAL CAPITAL



## FAST GROWING DEVELOPMENT FINANCE COMPANY IN SRI LANKA

LKR **2.8** Mn

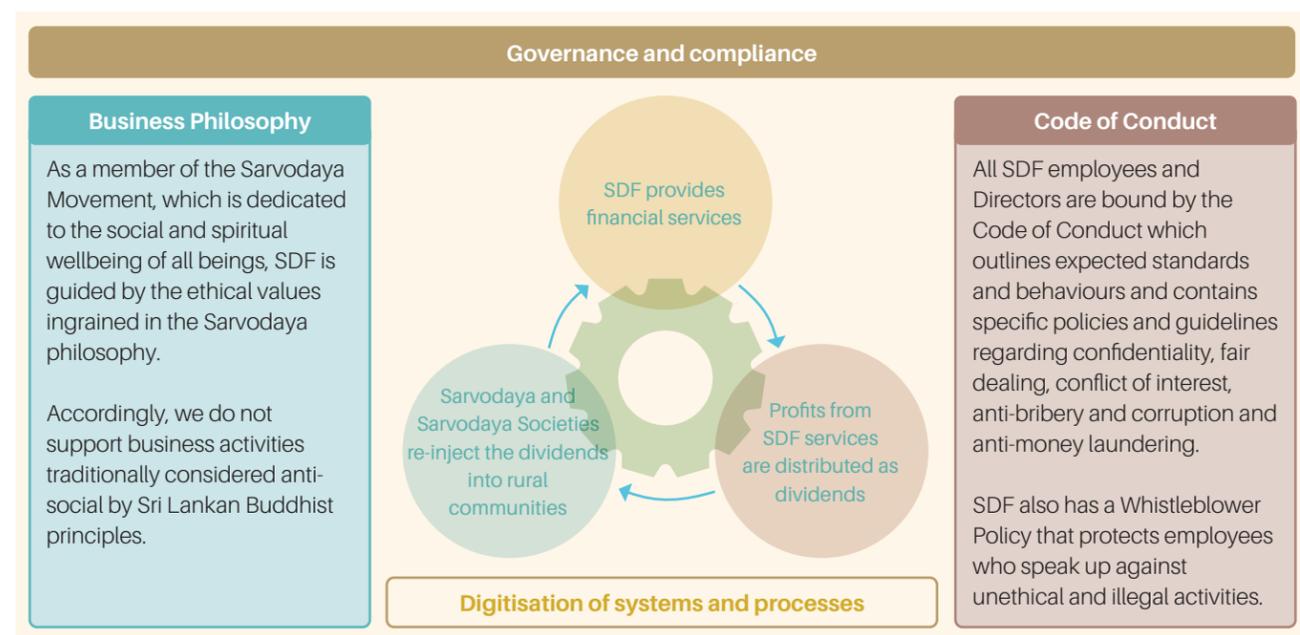
## INVESTMENT IN INTANGIBLE ASSETS

SDF's intellectual capital base is primarily the SDF operating model, which is one-of-a-kind due to its foundation in the Sarvodaya philosophy, and the collective knowledge of the Company, acquired through decades of operations in rural economies. Another significant intellectual capital, is SDF's unique impact investment model which has attracted international interest in the Company.

While SDF remains true to its founding philosophy, we are currently in the process of modernising our operations by integrating modern information communications technologies into our systems and processes. This transformation is creating a new and unique operating model that is geared for wide geographic coverage, including interior areas with little or no internet penetration, but is also reliable and secure.

## SDF IMPACT INVESTMENT MODEL

This is a unique model that generates funds in a sustainable manner, to support social and economic progress of underserved communities. SDF provides modern, formal financial services, at fair rates for Sri Lankan consumers, emphasising the rural and agricultural sectors. A major share of profits from these services are redistributed among SDF shareholders as dividends. A large share of dividends are redistributed among underserved communities by SDF's largest shareholder, the Sarvodaya Movement and its entities through its community welfare projects. SDF profits also re-enter rural economies through dividend payments to around 1,000 Sarvodaya Shramadana Societies that have now become SDF shareholders.



## ISLAND WIDE ICT SYSTEM

SDF is in the process of digitizing its island wide operations by incorporating new technologies to expand business capacity and speed of communications, while enhancing customer convenience. Under our digital strategy, previously manual systems and processes are being digitised and all 51 branches and 5,400 Sarvodaya Societies are being interconnected.

The low level of Internet penetration in rural and under served areas has been an obstacle to rolling out digital solutions across our island wide network. Many rural micro entrepreneurs also cannot afford to purchase a smart phone or laptop computer. Therefore, we have introduced unique hybrid solutions to include our rural customers, who have been marginalized in Sri Lanka's digital revolution, in the new digital age. One such example is to provide handheld devices to Sarvodaya Societies that in turn provide digital transaction services to rural customers.

We continue to digitize our internal operations and introduce new digital solutions. We have deployed Google (G-Suite) to facilitate our email communications and the Google AppSheet workflow management system which has streamline several key back end processes, such as our Supplier Payment Workflow and Bank Reconciliation Workflow, (amongst others) which have collectively led to a notable increase in productivity. We have already taken the first steps towards investing in advanced digital tools to strengthen our data analytics capabilities.



## BUSINESS CONTINUITY MANAGEMENT (BCM)

The entire BCM programme was revisited during the pandemic of 2020 to address information security implications that may arise if remote access was granted for an extended period of time. Already the Company has a virtual server ecosystem for Mission Critical Applications ("MCA") and new Lenovo servers and additional an Storage Area Network have also been deployed. We have also linked up with a leading call centre solutions provider to implement an innovative platform to integrate their solution with our Recovery Call Centre requiring minimal capital expenditure to enable integration.

## SOME OF THE KEY ADVANCES IN OUR DIGITISATION PROCESS DURING THE YEAR WERE

- Connecting to the LankaPay CEFTS switch to facilitate inward and outward payments to other banks and financial institutes.
- To speed up identity verification of customers and potential customers, we signed a Memorandum of Understanding with the Department of Registered Persons. Under Phase 1 of this agreement we can verify national identity cards (NICs) manually through a portal, which is now completed. Under Phase 2 NIC's will be verified automatically.
- We strengthened connectivity between branches by establishing IP-VPN links across all branches. This will facilitate a quicker service to our customers.
- A web based Tender System with an Internet Payment Gateway was developed for our customers who bid for the vehicles in our yard.
- An SMS alert system was deployed to inform customers of their investments and reminders for customers to pay dues.
- The SDF website was revamped to attract more customers, generate leads, and showcase our products/services.
- A Training Portal was implemented to support staff training and awareness

## SUSTAINABLE NEW PRODUCT DEVELOPMENT

As part of its growth and evolution SDF has introduced a new Product Development Policy setting out formal guidelines to determine the way new products are identified, developed, marketed, according to Central Bank guidelines on financial services.

All new products and services will be routed through the New Product Development Committee chaired by the Chief Executive Officer, and consisting of Head of Credit, Head of Finance, Head of Compliance, Head of IT, Head of Audit, Head of Marketing and Head of Risk. SDF's Board of Directors will be responsible for ensuring that product risks are well managed, and the needs and rights of consumers are appropriately addressed.

We have also included a mandatory screening process to assess the environmental and social impacts caused by any new product and will also be applied to see how our existing products measure up in terms of social and environmental impacts.

## SYSTEM SECURITY

Information security audits are conducted regularly and secure work from home systems have been successfully deployed. As we continued to expand our ICT network during the year, we strengthened system security by implementing the Secure Sockets Layer ("SSL") Certificate requirements, for our Core system.

## PLANS FOR THE FUTURE

We will continue to extend and improve our unique impact investment model and service delivery model to penetrate deeper into the country. This includes integrating new digital solutions and developing innovative operational solutions to bridge the urban-rural digital divide.

# HUMAN CAPITAL



**508**

**TOTAL NO OF EMPLOYEES**

LKR **429** Mn

**VALUE ADDED TO STAFF**

**6,711**

**TRAINING HOURS**

Our employees are integral to our value creation process and are also our brand ambassadors, representing SDF values at all times to customers and others. Therefore, we make all efforts to ensure employee satisfaction while encouraging a performance-oriented culture.

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We are fully compliant with all applicable labour laws, including legislation on child labour, forced labour and compulsory labour. All salaries, increments and bonuses, and statutory payments, such as EPF and ETF payments were made on the due dates. We did not face any fines and/or penalties for non-compliance with any labour laws, during the year.

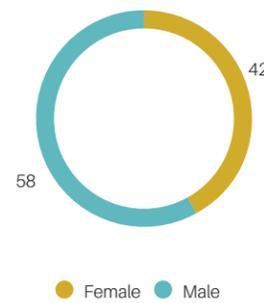
**GRI 2-7**

**EMPLOYEE PROFILE**

As at end March 2022, SDF had a total employee cadre of 508. We do not have part time or temporary employees. All 508 employees are full time, permanent employees.

**Gender Wise**

(%)

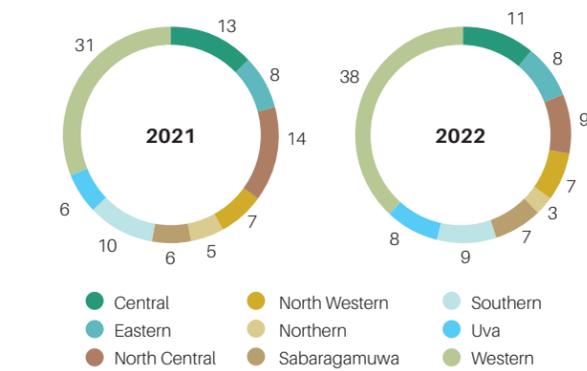


SDF's island wide operations are divided into 10 internally classified regions and the head office. Only 2 areas - Head office and Region 1 - are in the Western Province. The rest of the 9 regions are outside the Western Province representing a majority footprint.

We are present in some of the most far flung and underserved areas in the country including in the Monaragala District, Thambuttegama in the Anuradhapura District, Dehiattakandiya in the Ampara District, Medirigiriya in the Polonnaruwa District, Kebithigollewa in the Anuradhapura District, Parakrama Pura in Anuradhapura, bordering Vavuniya and Trincomalee, Kataragama in the Monaragala District, Akuessa and Karadeniya in the Matara District and many others. Employees are mainly recruited from their localities, generating employment opportunities in these areas. The number of employee's by region are listed below.

**Total Number of Employees**

(%)



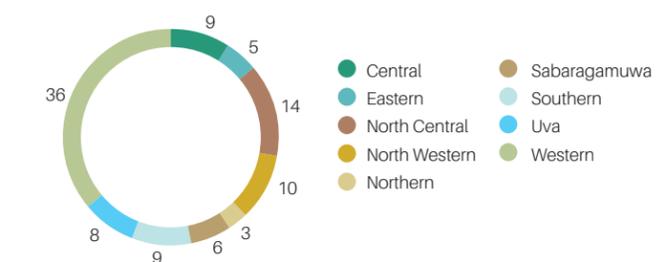
**PERMANENT EMPLOYEE BREAK DOWN BY GENDER**

Gender	Head Count	%
Female	156	42.5%
Male	211	57.5%
Grand Total	367	100%

**PERMANENT EMPLOYEE BREAK DOWN BY PROVINCE**

**Permanent Employee Break Down**

(%)



**GRI 2-8**

**WORKERS WHO ARE NOT EMPLOYEES**

SDF has outsourced some non-core operations to third party service providers. These are security personnel and cleaning staff for the SDF head office in Colombo 08, and cleaning staff for the 51 SDF branches. The number of these employees is 56 cleaning staff and 3 security staff, which is a total of 59 personnel.

**GRI 2-21**

**ANNUAL TOTAL COMPENSATION RATIO**

The ratio of the annual total compensation for SDF's highest-paid individual to the median annual total compensation for all employees (excluding the highest-paid individual) is approximately 3:1.

The ratio of the percentage increase in annual total compensation for the organization's highest-paid individual to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) is : 3: 1

Please note that the increase in annual compensation to staff (excluding the highest paid individual), includes gratuity payments as well as increments.

**GRI 401-1**

**NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER**

During the year, 221 new employees were recruited to support SDF's growth plans for the future, following the IPO.

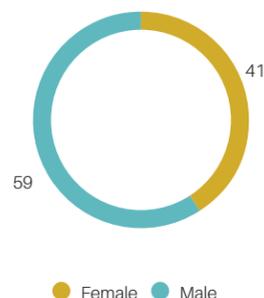
**New Employee Hires by Age Group**

Age Category	Head Count	%
20-30	146	66.1%
30-40	59	26.7%
40-50	14	6.3%
Above 50	2	0.9%
<b>Grand Total</b>	<b>221</b>	<b>100%</b>

**NEW EMPLOYEE HIRES BY GENDER**

**Gender wise Recruitments**

(%)



**NEW EMPLOYEE HIRES BY PROVINCE**

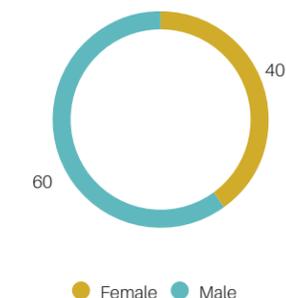
Province	Head Count	%
Central	14	6.3%
Eastern	10	4.5%
North Central	25	11.3%
North Western	18	8.1%
Northern	7	3.2%
Sabaragamuwa	23	10.4%
Southern	16	7.2%
Uva	32	14.5%
Western	76	34.4%
<b>Grand Total</b>	<b>221</b>	<b>100%</b>

**EMPLOYEE TURNOVER**

Total number of employee turnover during the reporting period was 185, a majority of which were men. The employee turnover ratio for the year was 37.4%.

**Gender wise turnover**

(%)

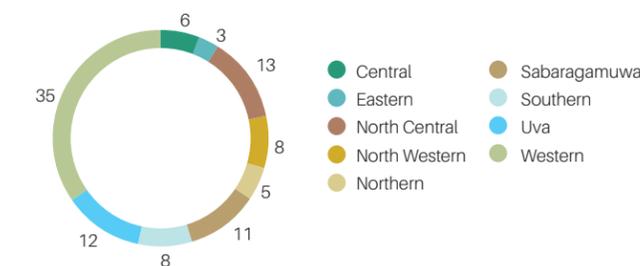


**EMPLOYEE TURNOVER BY AGE GROUP**

Age Category	HeadCount	%
20-30	96	51.9%
30-40	61	33.0%
40-50	21	11.4%
Above 50	7	3.8%
<b>Grand Total</b>	<b>185</b>	<b>100%</b>

**Turnover by province**

(%)



**SDF HR POLICIES**

All SDF HR policies were approved by the Board in June 2021. These comprise 21 policies categorised into 7 areas, applying to all aspects of employment at SDF. As an equal opportunity employer SDF provides employment and growth opportunities non-discriminately.

**MOTIVATION STRATEGY**

SDF conducts many employee recognition events to encourage above average performance. These include acknowledging best performers, offering pay incentives and bonus payments, annual increments, and an annual award ceremony that recognizes the best employee, the best branch manager, the best marketing officer and others who have done extraordinary work.

We even recognise children of staff that perform well in school. Employee benefits

We provide a range of benefits above and beyond the statutory requirements and all staff are entitled to all benefits from the first day of their recruitment. These include:

- An insurance scheme, which extends to parents of unmarried employees and children and spouse of married employees. The scheme also provides OPD cover for medical facilities.
- An accident insurance cover of up to LKR 1 Mn and a life insurance of up to LKR 500,000.
- During the financial year 2021-22, employees were paid 2 annual bonuses to the value of LKR 29 Mn and increments up to LKR 190,000 per person
- Best performers were given monthly incentives in 2021-22 up to LKR 190,000 per person
- Annual staff get together
- Gym and library facilities and Zoomba classes for women at the SDF head office.
- Subsidized breakfast and lunch, and free diner at the SDF head office

**GRI 404-1**

**AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE**

Average hours of training that the organization's employees have undertaken during the reporting period, by:

**i. Gender;**

Gender	Total Training hours		Average training hours per employee	
	2022	2021	2022	2021
Male	4,177	5,969	8	13
Female	2,534	1,150	5	2
<b>Total</b>	<b>6,711</b>	<b>7,119</b>	<b>14</b>	<b>15</b>

**ii. Employee Category**

Category	Head Count			Hours		
	Male	Female	Total	Male	Female	Total
Head Office	333	291	624	1,016	727	1,743
RM & BM	414	29	443	1,263	72	1,335
Business Development	396	15	411	1,208	37	1,245
Recovery	91	-	91	278	-	278
Branch Back Office	-	594	594	-	1,484	1,484
Gold Loan	69	50	119	211	125	336
Induction	66	35	101	201	87	289
<b>Grand Total</b>	<b>1,369</b>	<b>1,014</b>	<b>2,383</b>	<b>4,177</b>	<b>2,534</b>	<b>6,711</b>

During the financial year 2021-22, SDF invested LKR 1.8 Mn in training. Training needs are identified based on management and employee feedback, and performance evaluations. External resource persons are recruited for regional training events.

We also provide coaching for employees. The HR Division and senior managers identify staff for personalised coaching. The coach identifies strengths and weaknesses through a questionnaire to assess individual requirements.

**GRI 405-1**

**DIVERSITY OF GOVERNANCE BODIES AND EMPLOYEES**

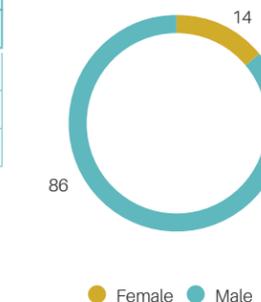
SDF has a diverse workforce with local recruitments from different parts of the country from all ethnic groups, including ethnic and religious minorities.

**Diversity of governance bodies by gender**

Male	Female
6	1

**Diversity of governance bodies**

(%)



# HUMAN CAPITAL

## Diversity of governance bodies by age group

30-50	Above 50	Below 30	Grand Total
4	3	-	7

## Diversity of employees by gender and by ethnicity

Category	Female	%	Male	%	Total	%
Catholic	6	1.18%	11	2.17%	17	3.35%
Muslim	-	-	3	0.59%	3	0.59%
Sinhala Buddhist	195	38.39%	249	49.02%	444	87.40%
Tamil	13	2.56%	31	6.10%	44	8.66%
<b>Grand Total</b>	<b>214</b>	<b>42.13%</b>	<b>294</b>	<b>57.87%</b>	<b>508</b>	<b>100.00%</b>

## Diversity of employees by age group

Category	Age Group			
	30-50	Above 50	Below 30	Grand Total
Catholic	13	0	4	17
Muslim	2	0	1	3
Sinhala Buddhist	247	37	160	444
Tamil	23	0	21	44
Grand Total	285	37	186	508
%	56.1%	7.3%	36.6%	100%

### GRI 406-1

#### INCIDENTS OF DISCRIMINATION AND CORRECTIVE ACTIONS TAKEN

There were no incidents of discrimination reported during the year under review.

#### Performance evaluations

SDF conducts performance evaluations every 6 months, which is a highly effective form of employee engagement to discuss personal development goals and skill gaps of employees, to organise training activities and to set mutually agreeable performance goals. During the year, 398 employees, including new recruits who completed 6 months, participated in performance evaluations.

## Occupational health and safety

Given the nature of our business, SDF's employees do not face any material occupational health and safety risks. We comply with all national health and safety regulations to ensure our premises are safe for our employees. We continuously monitor safety systems and conduct regular safety drills to confirm the readiness of our safety systems, while safety training is done regularly to raise awareness among employees.

We have implemented all recommended COVID-19 safety protocols for protection of employees, while employees were trained and guided on following health regulations when at work. The Medical insurance scheme was expanded to include COVID-19 related cases, while a dedicated COVID-19 quarantine unit was set up at the Sarvodaya centre specifically for the use of SDF staff, as and when needed.

## Grievance management

We maintain an open-door policy where any employee from the highest to the lowest rank can speak directly to the Chief Executive Officer (CEO), the Acting General Manager of HR and do not need to go through the hierarchy. The CEO conducts monthly meetings with the HR Division and any employee concerns are discussed and meeting are conducted with Regional Managers every month, which is another platform to discuss employee matters.

## Succession planning

The SDF succession planning programme is aimed at ensuring the correct skills and talent to occupy key management positions. We have already identified organisation wide succession gaps and we are developing a successor pipeline. Earmarked talent is developed through continuous coaching and training at branch level as well as at the head office.

## EMPLOYEE ENGAGEMENT EVENTS IN 2021-22

### Mindfulness meditation



Sarvodaya Development Finance staff is frequently exposed to mindful meditation programs which are conducted over 2 days under the guidance of meditation teachers at the Sarvodaya Vishwa Nikethan Peace & Meditation Center in Moratuwa. These program brings greater level of tranquility and much desired enhancement of mindfulness to the staff of SDF. This transforms are staff to work more effectively whilst enhancing work life balance and quality of life.

### Thai Pongal celebration



Sarvodaya Development Finance which has strong presence in the North and East of the country works closely with all communities. Celebrating Thai Pongal day in our branches with our customers is an important aspect that recognizes the harvesting festival celebrated specially by the Tamil community across Sri Lanka.

# HUMAN CAPITAL

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## Women's Day celebrations



Sarvodaya Development Finance annually celebrates March 8th day dedicated as the International Women's Day. We celebrate women's achievements, raise awareness about women's equality. Women entrepreneurial skills are showcased at our premises as they are recognized and applauded

### FUTURE PLANS

Our employees will be a key component to drive our growth plans in the new financial year. Therefore, the main HR focus will be on staff training, staff engagement and retention. To retain employees, we plan on introducing Stay Interviews and building relationships through staff engagement events and staff feedback mechanisms. We will also emphasise a performance culture through incentive schemes based on performance targets.

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# SOCIAL AND RELATIONSHIP CAPITAL



OVER **153,000**  
**CUSTOMER BASE**

**57%**  
**WOMAN IN CUSTOMER BASE**

**97%**  
**CUSTOMER RETENTION**

SDF's social capital is the goodwill associated with the SDF brand, which is augmented by the link to the Sarvodaya Movement, which enjoys over 60 years of credibility and trust among the majority rural publics of Sri Lanka. SDF itself, has built a track record of trust from around 30 years of operations as a responsible, financial services provider with long standing relationships with customers, communities and other stakeholders.

SDF was recognised as the 'Fastest growing development company in Sri Lanka 2021,' by the Global Banking and Financial Review, UK

SDF won the bronze award for its 2020-21 annual report by the Institute of Chartered Accountants of Sri Lanka.

# SOCIAL AND RELATIONSHIP CAPITAL

With over 80% of operations outside the Western Province, SDF's constituency is primarily, but not exclusively, within Sri Lanka's rural communities. Through a network of 51 customer touch points and the network of 5,400 Sarvodaya Sharmadana Societies (Sarvodaya Village Societies), today, SDF engages with all ethnic and language groups, among urban as well as rural communities, in all 9 provinces of the country, representing the most extensive social franchise of a single, private sector, non-bank financial services provider in the country. As at March 2022, our customer base comprised approximately 153,000 individuals and businesses with a customer retention ratio of 97%, and in addition, we have access to around 800,000 members of Sarvodaya Societies. This base is geared for growth with expansion plans lined up across the network.

We believe our social capital was augmented during the financial year 2021-22 by going public. The IPO to the Colombo Stock Exchange was oversubscribed by noon of the opening day indicating the level of public acceptance of SDF. Significantly, the IPO allowed rural entrepreneurs, represented through Sarvodaya Societies, to integrate with the modern stock exchange. Sarvodaya Shramadana Societies have now become direct SDF shareholders, strengthening

the goodwill towards SDF in villages. We have also diversified our shareholder base beyond the Sarvodaya network, as many local and foreign independent investors bought into the Company. Our investment roadshows made it possible to internationally publicise the SDF brand name and impact investment model, to gain some extent of international goodwill towards SDF.

## ENGAGING WITH OUR STAKEHOLDERS

GRI 2-29

### Approach to stakeholder engagement

SDF's social franchise is one we consider invaluable and hold very dear to our hearts, as once lost, this is one commodity that can never be recouped. Therefore, we take great pains to maintain our social relationships.

SDF's key stakeholder groups were identified by the senior management based on each stakeholder group's ability to influence the Company and their interest in the Company.



## BUILDING MEANINGFUL RELATIONSHIPS

Our primary stakeholder groups and how we build meaningful relationships with each group, is explained below.

- SDF caters to a diverse customer base. Therefore, we have segmented our customers into the 3 sub-groups of women customers, members of Sarvodaya Shramadana Societies (also known as Sarvodaya Village Societies), and others. This breakdown reflects the differences in each sub-sector's needs from SDF as a financial services provider, and the difference in how we respond to these needs.
- Although potential investors have no influence and/or interest in the Company, we have decided to include this category as a key stakeholder due to the Company's interest in raising global awareness regarding impact investment opportunities in Sri Lanka.

(i) Stakeholder category	(ii) Purpose of engagement	(iii) How engagement is made meaningful
<b>Regulators</b> <ul style="list-style-type: none"> <li>Central Bank of Sri Lanka</li> <li>Company Registrar</li> <li>Labour Department</li> <li>Securities and Exchange Commission</li> <li>Colombo Stock Exchange</li> </ul>	<ul style="list-style-type: none"> <li>For statutory obligations</li> </ul>	<p>* SDF came under the purview of 2 new regulators - the Colombo Stock Exchange and the Securities and Exchange Commission - during the reporting period, while operating in an already heavily regulated industry.</p> <p>We develop a meaningful relationship with our regulatory bodies through regular communications, including attending any training programmes to update our regulatory knowledge and by complying fully, on time, with all statutory reporting.</p> <p>SDF did not face any fines or penalties from any regulatory body during the year under review.</p> <p>Refer Internal Control Review in page 173 and Corporate Governance Report in Pages 97 to 142.</p>
<b>Shareholders</b> <ol style="list-style-type: none"> <li>Sarvodaya and it related entities: 54.0%</li> <li>Others: 46%</li> </ol>	<ul style="list-style-type: none"> <li>For statutory obligations</li> <li>To build confidence and trust</li> <li>To raise equity and debt</li> </ul>	<p>* During the financial year under review, SDF expanded its shareholder base through a public listing of shares in the Colombo Stock Exchange.</p> <p>We develop meaningful relationships with our shareholders through shared values and by upholding our financial and non-financial commitments. To provide fair value for our shareholders we maintain above average dividend payout levels. We also deploy funds to support rural development and to empower small and micro enterprises, fulfilling our commitment as an impact investment company.</p> <p>We communicate our progress regularly through quarterly reports, the Annual General Meeting and by responding to shareholder queries.</p>
<b>Customers: Women</b>	<ul style="list-style-type: none"> <li>For lending and deposit growth</li> <li>To support women entrepreneurship</li> <li>To support welfare of families (as women are the primary caretakers of children and elderly)</li> </ul>	<p>Women represent the majority 57% of our customer base, which we have acknowledged by dedicating this annual report to our women customers. We have categorised women as a distinct stakeholder group in need of special attention due to cultural obligations that may impede their progress. Many SDF women customers from the North and East are sole breadwinners supporting their children.</p> <p>We build meaningful relationships with our women customers by:</p> <ul style="list-style-type: none"> <li>Not only providing a range of financial services, but by supporting their empowerment through training programmes, market linkages and sensitising our staff towards special needs of women.</li> <li>Taking the time to speak to them and understand their needs, and customise our offerings to their needs and also their repayment capabilities, to prevent debt overburdening.</li> </ul>

# SOCIAL AND RELATIONSHIP CAPITAL

(i) Stakeholder category	(ii) Purpose of engagement	(iii) How engagement is made meaningful
<b>Customers:</b> Members of Sarvodaya Shramadana Societies	<ul style="list-style-type: none"> <li>For lending and deposit growth</li> <li>To support rural entrepreneurship</li> </ul>	<p>SDF provides modern financial services to SSS members in rural and under-served parts of the country.</p> <p>SDF engages with these customers by:</p> <ul style="list-style-type: none"> <li>Participating in SSS activities and holding workshops/training events.</li> <li>Organising special market linkage activities and providing advisory services for SSS members.</li> <li>SDF also maintains below average micro credit lending rates to support rural entrepreneurs to prevent exploitation by , black-market village lenders, while providing the highest standard of professional services.</li> </ul>
<b>Customers:</b> Others	<ul style="list-style-type: none"> <li>For lending and deposit growth</li> <li>To support entrepreneurship</li> </ul>	<p>SDF provides a range of lending, leasing and deposit services for the public and engages with them through its branch network by providing fast and professional services.</p> <ul style="list-style-type: none"> <li>Strategic locations in towns are selected to enable easy access to our branches and ATMs.</li> <li>A range of financial products have been developed to meet different needs</li> <li>SDF staff are trained to provide friendly services and financial advice in whatever language of the area, and discrimination of customers based on race, religion, ethnicity etc.. is prohibited</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>To sustain growth</li> <li>Build brand image</li> </ul>	<p>SDF has a diverse group of male and female employees from all ethnic and religious backgrounds in the country, scattered across 51 branches across the country and the SDF head office in Colombo.</p> <p>Employee engagement takes place in multiple forms including regular inter-branch meetings, informal activities and daily communications. A work-from-home system was also successfully deployed during the COVID containment period in 2020 and 2021.</p> <p><b>GRI 2-30</b></p> <p><b>Collective bargaining agreements</b></p> <p>SDF employees are not unionised, and as such the Company does not engage in collective bargaining. Working conditions conform to:</p> <ul style="list-style-type: none"> <li>The Shop and Office Act of 1954</li> <li>The Maternity Benefits Ordinance of 1939</li> <li>Employees Provided Fund (EPF) Act No.15 of 1958</li> <li>Employees' Trust Fund (ETF) No.46 of 1980</li> <li>Other relevant labour regulations (prevention of child labour, forced labour compulsory labour)</li> <li>Best practices in health and safety</li> </ul> <p>Please refer the Human Capital chapter (Pages 76 to 82) of this report for details on our human resource management policies and employee benefits.</p>

(i) Stakeholder category	(ii) Purpose of engagement	(iii) How engagement is made meaningful
<b>Sarvodaya Shramadana Societies</b>	<ul style="list-style-type: none"> <li>To capture rural market share</li> <li>To understand rural market trends</li> </ul>	<p>Over 1,000 Societies are now shareholders of SDF making them shareholders as well as key business partners.</p> <p>The 5,400 Societies are present in all districts of the country, providing a direct channel to rural entrepreneurs.</p> <p>SDF has built a strong relationship with the Societies by building financial, technical and human resource capacity within these rural bodies. SDF intervention includes:</p> <ul style="list-style-type: none"> <li>Providing bulk lending for disbursement among Society members</li> <li>Reactivating dormant societies through lending and deposit programmes and training events for members</li> <li>Organising training programmes to enhance the knowledge of Society officials</li> <li>Introducing new revenue sources by enabling digital transactions by distributing palmtop computers to Societies</li> </ul>
<b>Potential investors</b>	<ul style="list-style-type: none"> <li>To attract funding</li> <li>To raise awareness among the investor community</li> </ul>	<p>SDF continues to engage with the global impact investor community to raise awareness about investment opportunities in Sri Lanka.</p> <p>In addition to investment road shows, annual reports, quarterly financial statements, the SDF website and social media are used to communicate and attract potential impact investors.</p>
<b>Lending agencies</b>	<ul style="list-style-type: none"> <li>To access working capital</li> <li>For debt financing</li> </ul>	<p>SDF works with licenced banks in Sri Lanka to raise funds for daily operations and for medium term funding.</p> <p>Transparent and open communications have built relationships based on mutual trust</p>

## THE SDF BRAND

Following the IPO SDF's brand equity has increased due to the investment roadshows and public awareness campaigns including extensive digital media campaigns. In addition, scheduled marketing events for the year have also contributed towards the brand equity.

To retain the unique SDF brand identity, SDF's brand strategy is aligned with SDF's brand philosophy, which is based on the principles of social entrepreneurship promulgated by the Sarvodaya Movement. Therefore, SDF's brand strategy aims at building long term relationships based on traditional values of mutual cooperation and understanding.

During the year many brand building activities were conducted across the country, to enhance brand visibility as a precursor to the IPO. These were primarily below the line activities for greater connectivity between different stakeholders and the Company. Regular town-storming events and door-to-door-to promotional campaigns were conducted to raise awareness in towns and villages. Marketing material were designed with customer testimonials, to convey the SDF relationship based model, as opposed to the transactional model of traditional finance companies. Following the IPO, we have commenced an island wide branding operation to adopt consistent branding at all 51 branches. In addition, branch teams designed and conducted suitable localised campaigns, tailored to the particular target markets in their areas. SDF also participated in Sarvodaya Society activities to gain brand visibility in deeper rural areas.

# SOCIAL AND RELATIONSHIP CAPITAL

Combined branding and marketing activities are conducted in collaboration with key business partners whose values are consistent with SDF's own brand ideals. These include our leasing partners who supply agricultural vehicles and equipment for SDF customers.

**GRI 2-6**

**PRODUCT PORTFOLIO**

Our financial products are the primary form of value we offer our customers. Following diagram shows SDF product portfolio with their main customers.



**SDF TECHNOLOGY AND DIGITAL STRATEGY**

A range of communication mediums are used in our marketing communications activities including print and electronic media to target the general public. We are also expanding our digital footprint to engage the new generation of digitally active youth. We are present in all major social media platforms with interactive activities to engage young people and our corporate website has been upgraded with many new modifications in the pipeline. Currently our website and social media accounts are primarily used as a platform for customer inquiries, lead generation, raising awareness on financial developments such as changes to interest rates and for marketing and advertising activities. We are also expanding our reach through mobile phones for digital transactions.

To bridge the digital divide between urban and rural communities, we have already equipped 100 Sarvodaya Societies with handheld devices that are enabled to conduct financial transactions on behalf of Sarvodaya Society members, for a small fee. This arrangement allows rural small and micro entrepreneurs who cannot afford to purchase smart phones and computers at current highly inflated prices, to benefit from the convenience of digital facilities.

SDF customers with savings accounts are issued ATM Debit Cards that allows them to use our ATM network, which is connected to the LankaPay network giving them access to a network of 4,500+ ATMs island-wide. We have set up Pay&Go enabled POS terminals at most Sarvodaya Shramadana Societies. Customers can also pay their utility bills this way and we have tied up with Mobitel (Pvt) Ltd to extend the mCash mobile payment facility to SDF customers.

**CUSTOMER PRIVACY**

We have installed the latest data protection software to safeguard customers' information, with strict authority limits to grant access to authorised personnel only. Furthermore, we train our employees regularly to educate them on their duties and responsibilities with regard to upholding customer privacy.

In addition, we use the corporate website, social media accounts, email announcements, to inform customers about potential information security threats and provide them with practical and useful content on how best to protect themselves against any such risks.

**COMPLAINT MANAGEMENT**

SDF complies fully with all Central Bank customer protection directive. A formal complaints handling policy is available and the Customer Protection Framework is available on our website with a link to the Financial Ombudsman's Office. A customer complaints number is available on the SDF website and all customer complaints are reviewed by the head of compliance.

A dedicated 24-hour customer hotline (1319) is available and social media inquiries are also directed to the hotline, even outside normal working hours.

All concerns reported through any of these channels are documented and handled in compliance with board approved guidelines, which include specific workflows, set timelines and designated authorities to oversee the process.

We respond to all customer complaints within 24 hours.

**BUSINESS PARTNERS**

The Sarvodaya Societies are our main business partners. We work closely with the societies for all business lines including raising deposits, and lending and leasing. The societies are a key source of fixed deposits to finance operations and account for a large share of microlending and agricultural leases.

Suppliers of vehicles and equipment for our leasing business, mainly for the agriculture sector, are the next major group of business partners. As at end March 2022 this business partner network consisted of 634 vehicle suppliers and 260 equipment suppliers. We have entered into formal MOU's with selected partners, and also collaborate in marketing and promotional activities in addition to regular communications to ensure smooth operational working arrangements. To reduce the risk component for our customers, especially our agriculture sector customers, we also attempt to negotiate special arrangements with suppliers.



During the year Sarvodaya Development Finance entered into a strategic Memorandum of Understanding with DIMO to that leads into providing attractive leasing rates and attractive terms for the farmers . This exclusive agreement is now extended for the third consecutive year.

# SOCIAL AND RELATIONSHIP CAPITAL

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## SOCIAL IMPACT

### GRI 411-1

#### Indigenous peoples' rights

SDF's branch in Mahiyanganaya, which is home to the indigenous Vedda community, provides services indiscriminately to everyone, including people from the Vedda community and enjoys a good relationship with all communities in the area. According to SDF's local recruitment policy, SDF also recruits men and women to work in the branch from the local communities. To date there have been no formal or informal complaints, or fines or penalties, with regards to any discrimination or violation of rights of indigenous communities.

### GRI 413-1

#### Local community engagements

SDF works with the network of 5,400 Sarvodaya Societies on community projects. A dedicated Society Coordinating Unit (SCU) has been appointed to liaise between SDF and the large number of Societies and to identify projects to support SDF's community investment programmes.

#### SMART VILLAGE DIGITAL PLATFORM



Sarvodaya Development Finance conducted an industry dialogue to create a smart village for progressive economy. This is to develop a platform to connect small entrepreneurs in the rural areas to their end customers. This envisaged platform will eventually help small entrepreneurs to sell their products to end customers directly using E-commerce technology.

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## SUPPORTING EDUCATION IN RURAL AREAS



#### Program to uplift education of the students in rural areas

During the year Sarvodaya Development finance collaborated with University of Colombo Graduates Association in conducting seminars for ordinary level students in remote locations who received less than 40 marks for their mathematics at their last school examination. Seen here over 500 such students doing a 2 day program at D.S Senanayake Maha Vidyalaya, Ampara and Uhana Maha vidyalaya in Ampara.

Excellent teaching faculty that excels in teaching mathematics in an easy to understand manner that helps these students to grasp the subject quickly in order to pass GCE (OL) examination is the main goal of the program. The students are also provided with all meals during these 2 days, along with stationary, module examination papers all free of charge.

After this program SDF conduct an assessment on those students and more than 80% of the student get through mathematics subject and continues their studies.

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## COMPUTER LEARNING CENTRE



### Computer learning center to uplift knowledge in rural areas

Sarvodaya Development Finance in a ground breaking initiative tied up with Mithra Innovation a leading software developer in Sri Lanka to teach rural students software programming to rural villages. In this pilot project over 25 students were trained over last 6 months giving them comprehensive knowledge and skills in software development. After the 6 months training program a certificate is awarded to them and employment is guaranteed to all the students completing the program.

Here students at Kethsiri Gama, situated 30 km away from Ampara is seen at the computer learning center in Ampara. SDF envisages to increase the size of the program to 100 students in the near future.

## SUPPORTING A DIFFERENTLY ABLED CHILD



### Sponsorship for differently abled child

Sarvodaya Development Finance help to ensure that people with disabilities have equal opportunities and well supported. This child with significant disability achieved 9 A passes at GCE (OL) examination from a distant village in the south of Sri Lanka . Celebrating her success we now provide her a monthly scholarship awarded until she completes her higher studies including her degree. This 7 year commitment of a continued scholarship will motivate her and others to do well overcoming great challenges in life. In addition she has been assured of a Job post her higher education at our impact driven organization.

## GRI 417-2

### COMPLIANCE ON LABELLING

We comply fully with all Central Bank directions on all promotional material for all our financial services and to date have faced no penalties and/or fines for non-compliance. We have also not received any customer complaints regarding misleading, or incorrect information in any of our communications including branding and marketing materials.

SDF's Board approved Marketing Policy requires that all our advertising and promotional material are designed in compliance with regulatory requirements applicable to local financial institutions. Moreover, in keeping with globally-accepted best practices we strive to ensure that the information we provide regarding our products and services are clear, understandable, accurate, and accessible.

There were no incidents of noncompliance concerning product and service information and labeling reported during the financial year under review.

### HEALTH AND SAFETY OF CUSTOMERS

There have been no incidents of non-compliance with regards to health and safety standards in the provision of our products and services in our network of offices across the country, and we did not face any fines, or penalties in this regard during the year.

All COVID prevention protocols stipulated by the national authorities for offices/commercial establishments have been fully implemented across all 51 branches and head office, including the provision of hand sanitisers, hand washing facilities,, one-meter distancing and SDF staff have been advised to wear face masks inside office premises to protect customers and staff.

In addition, sanitation procedures are maintained such as regular cleaning and disinfection of office premises and sanitation facilities, including toilet facilities, are available for customers at SDF branches.

## PLANS FOR THE FUTURE

Strengthening and expanding our social capital base will be a priority in the new financial year, through both market penetration and market diversification strategies. We will extend our reach deeper into rural areas of the country through the network of Sarvodaya Societies while attracting new customer segments through a range of new products and product customisation to further mitigate market risks.

Growth in customer base will be accompanied by enhanced customer care facilities including the deployment of a Customer Relationship Management system, upgrades to the core banking system and continuous digitisation of process to facilitate faster delivery of services, and continuous office and field staff training to improve IT skills, professionalism and quality of services. We will continue to expand our leading partner network in the agriculture sector, for a wider range of product and pricing choices for customers, which will also gain SDF a market advantage.

The SDF website and mobile transactions facilities will be continually improved. Our objective is to allow our customers to benefit from the convenience of digital financial transactions directly through their mobile phones and laptops and for rural communities to benefit through Sarvodaya Societies that will be equipped with hand held devices to facilitate digital transactions for a small fee.

The branch branding plans will be unrolled next year for brand consistency across our 51 branches and previous service centres will be upgraded to branch level with improved facilities to provide the full range of SDF financial services and some will be relocated for greater accessibility and visibility.

A full marketing and promotions calendar has been developed and will be deployed throughout the country with special emphasis on digital platforms to grow SDF's next generation customer base.

SDF will also continue to scan global markets for likeminded impact investors who would like to join us in our journey.



OVER **1,000**  
**TREE PLANTING**

OVER **35%**  
**ENERGY SAVING**

Although SDF operations extend island wide, we have a comparatively small carbon footprint as our office premises consume comparatively lower levels of natural resources and energy, and a majority of our employees travel by public transport, which significantly reduces per capita energy consumption. We are also not directly engaged in any environmentally damaging activities.

Therefore, our natural capital base consists mainly of conservation initiatives and investments into renewable energy. We have already introduced many changes to reduce wastage of resources. In addition, our digitisation process is increasingly cutting down paper consumption and reducing the need for physical travel between our branches and head office, thereby reducing fuel consumption.

## RENEWABLE ENERGY

In 2019, SDF took the first steps towards investing in renewable energy by commissioning rooftop solar panels at the Company's head office building. Almost 35% of the monthly electricity requirements of the head office building are now met through solar power.

## CONSERVING RESOURCES

Reducing paper consumption is another component of our green strategy, and we encourage employees to reduce and reuse paper where possible. SDF has also signed up with a Central Environmental Authority approved recycling partner to ensure paper waste is disposed responsibly. During the year 2021-22, we recycled 514 Kgs of used paper from the head office. Our e-waste is disposed through a specialised disposal company and is never dumped, or sent to landfill.

We have commenced tracking electricity usage and fuel consumption digitally through hand-held devices. To control the use of electricity in our day-to-day operations, we have set clear targets for consumption at a regional and corporate level and annual electricity usage levels are measured against overall revenue and cost structures, while usage per employee is also monitored digitally through hand-held devices.

Similar metrics are applied to monitor fuel consumption across the Company. We plan on setting up systems to monitor paper consumption and recycling in the future.

## ENVIRONMENTAL IMPACT

### Disclosure 302-1 Energy consumption within the organisation

Our energy consumption refers to the non-renewable, fossil fuel consumption for work-related travel, electricity consumption at head office and 51 branches, and solar power, which we sell to the national grid.

Energy type	Amount (Joules)
Total fuel consumption non-renewable sources	8.67x10 <sup>12</sup>
Total fuel consumption renewable sources	NA
Electricity consumption	1.94x10 <sup>12</sup>
Heating consumption	NA
Cooling consumption	NA
Steam consumption	NA
Electricity sold	5.34x10 <sup>10</sup>
Heating sold	NA
Cooling sold	NA
Steam sold	NA
Total energy consumption	10.61x10 <sup>12</sup>

### Disclosure 302-4 Reduction of energy consumption

The reduction in energy consumption against the previous 12 months, is limited to reduction in electricity consumption, due to the use of solar power.

Energy consumption	Amount (Joules)	How the reduction was achieved
Reductions in total energy consumption		
Fuel	No reduction	
Electricity	8.2x10 <sup>10</sup>	Through the solar panel system in Head office
Cooling	NA	

### Disclosure 303-5 Water consumption

We have commenced monitoring water consumption and we hope to introduce waste minimisation systems in the future.

Water consumption	Volume (Megalitres)
Total water consumption	15.48
Total water consumption from all areas with water stress	15.48
Change in water storage	NA

### Disclosure 306-3 Waste generated

The significant waste generated by our offices is paper, which is also gradually reducing due to digitisation of our systems. We hope to extend our recycling efforts to our 51 branches and start monitoring this activity in the future.

Waste generated	Volume (MT)
<b>Total weight of waste generated</b>	
Paper	0.05
Plastic	NA
Food waste	NA
Electronic waste	NA
Any other type pf waste	NA

SDF TREE PLANTING PROJECT

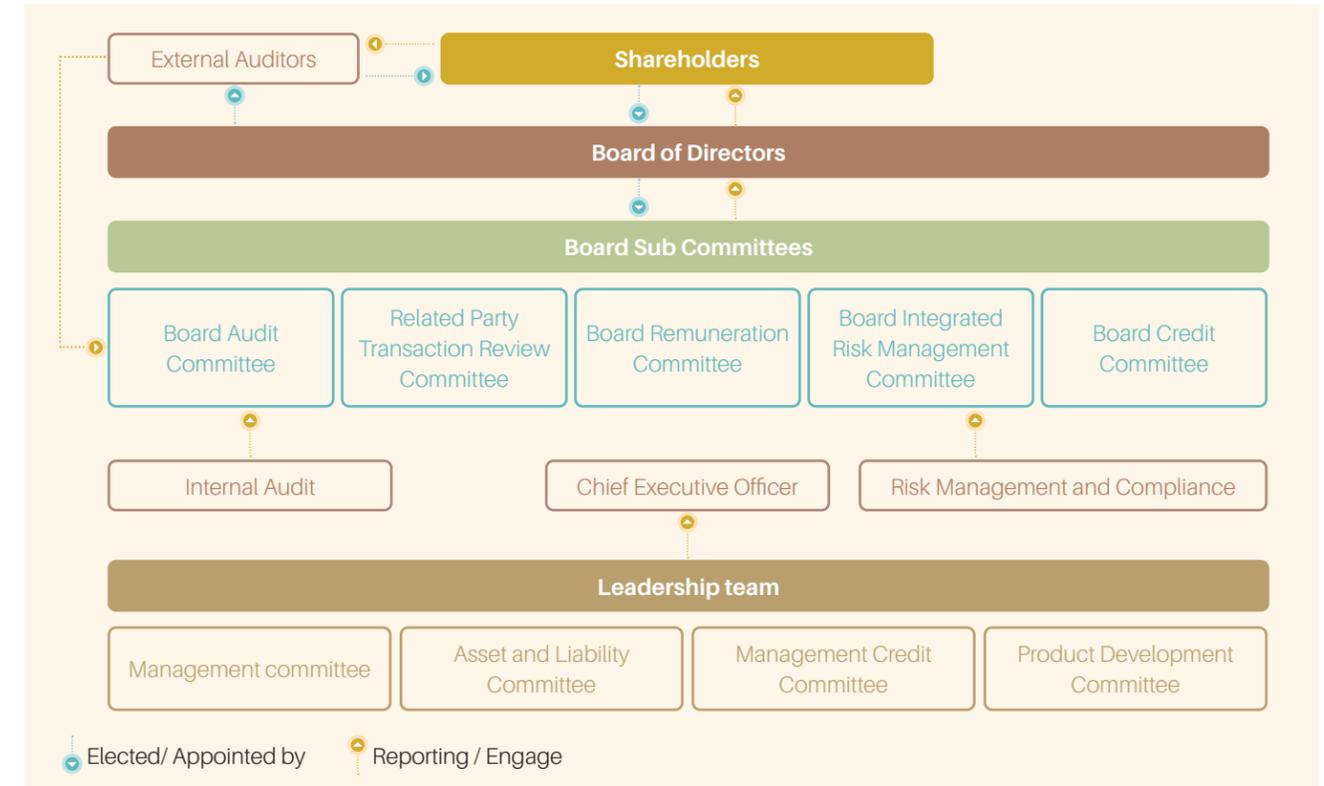


**Mee Tree Planting to reduce carbon footprint**  
SDF together with university of Colombo Graduates Association and Ministry of Environment launched a program to plant 50,000 Mee plants across the country. This picture denotes planting 1500 Mee plants in Ampara. Here distributing the plants to students of Ampara D S Senanyake Maha Vidyalaya under a sub theme ' Let us repay the debt we owe to the books we are studying' . Under this theme these students will plant and look after the trees too. In addition to this a further 500 plants were planted in a 10 other school premises in Ampara.

Corporate governance at Sarvodaya Development Finance PLC (SDF), comprises of carefully considered rules and principles on management, control and delegation of responsibility between the shareholders, the Board of Directors and the CEO.

GRI 2-9

GOVERNANCE STRUCTURE AND COMPOSITION



The governance structure of SDF is built on well described roles and responsibilities, greater transparency & accountability and clear reporting lines of the Board, Board's sub committees, management and management committees.

SDF as a development finance company values its stakeholder engagement and take into consideration of stakeholder expectations when designing value creation of the company.

GOVERNANCE FRAMEWORK		
<p><b>External - Regulations</b></p> <ul style="list-style-type: none"> <li>Companies Act No. 7 of 2007</li> <li>Finance Business Act No.42 of 2011</li> <li>Corporate Governance Direction No.03 of 2008 (as amended) issued by the Central Bank of Sri Lanka</li> <li>Listing Rules of the Colombo Stock Exchange (CSE)</li> <li>Sri Lanka Accounting standards and Sri Lanka Financial Reporting standards (LKASs/SLFRSs)</li> <li>Securities and Exchange Commission of Sri Lanka Act. No 19 of 2021</li> </ul>	<p><b>Internal - Regulatory structure</b></p> <ul style="list-style-type: none"> <li>Articles of Association</li> <li>Charters/Terms of Reference of Board, Sub Committees and Management Committees</li> <li>Board approved Internal policies, manuals and procedures</li> </ul>	<p><b>Voluntary standards</b></p> <ul style="list-style-type: none"> <li>Code of Best Practice on Corporate Governance issued by CA Sri Lanka (2017)</li> <li>Global Reporting Standards of the Global Reporting Initiative</li> </ul>

## GOVERNANCE BODIES OF SDF

GRI 2-12

Role of the highest governance body in overseeing the management of impacts

### Board of Directors

The Board provides the direction and leadership to SDF by setting strategy and risk appetite with oversight responsibility. The Board has an overarching responsibility for managing the affairs of SDF in the interests of the Company and all shareholders. The Board's tasks include, but are not limited to,

- setting operational goals and strategies
- appointing and evaluating the CEO
- ensuring that effective systems are in place to monitor and control operations,
- manage investments and ensuring that laws and regulations are followed

The Board of Directors are collectively responsible and accountable for making certain that the Company performs according to its mandate and adheres to its obligations to its constituencies. The Board is the sole governing authority in the Company and providing strategic leadership to the Management and staff in achieving its corporate goals and objectives. The Board's composition and balance ensures that no single individual dominates the decision-making process.

### BOARD COMPOSITION

The Board currently comprises of eight (8) Directors including the Chairman, who functions in a Non- Independent, Non- Executive capacity. Seven (7) of the remaining Directors have been categorised as Independent, Non-Executive and Non-Independent Non-Executive Directors within the provision of Section 4 (4) of the Central Bank, Finance Companies (Corporate Governance) Direction 3 of 2008. Currently there are three Independent Non-Executive Directors and five (5) Non Independent Non-Executive Directors in the Board.

Changes in the Board composition during the financial year 2021/2022.

#### ● New appointments to the Board

Mr. S. S. N. Senthilvel, Non independent Non-Executive Director, was appointed to the Board of SDF with effect from 15th July 2021.

#### ● Resignations of existing directors

Mr.Sunil De Silva, Independent Non-Executive Director resigned from the SDF board with effect from 1st March 2022.  
Dr.Janaki Kuruppu, Independent Non-Executive Director, resigned from the SDF board with effect from 31st March 2022.

#### ● Retirements of existing directors

Dr. Richard W.A. Vokes, independent Non Executive Director, was resigned from the SDF Board with effect from 19 April 2021.

#### ● Demise of Existing Directors

No Directors were demised during 2020/21.

#### ● Structural changes to the Board

- The Chairman of the Board, Mr.Channa De Silva reappointed as the Chairman- Non independent Non- Executive Director w.e.f 10th January 2022.
- Mr.Dammika Ganegama designated as the Senior Independent Non-Executive Director w.e.f 10th January 2022.

Mr.Ramesh Schaffter appointed to the SDF Board w.e.f 20th April 2022

The Board of Directors are responsible for bringing independent judgement on issues of strategy, performance, resources and standard of business conduct.

## BOARD APPOINTMENTS

GRI 2-10

### Nomination and selection of the BOD

The Director appointments to the Board recommends by the Remuneration and Nomination committee. On approval by the Board names are referred to the Central Bank of Sri Lanka for approval as a fit and proper person. Subsequently, the Board recommends the names of the Directors for appointment by the shareholders at the Annual General Meeting.

Director appointments are communicated to the Colombo Stock Exchange and shareholders through press releases with a brief resume of the director.

### RETIREMENT BY ROTATION AND RE-ELECTION OF DIRECTORS

At each Annual General Meeting one of the Directors shall retire from the office provided that a Director appointed to the office of Chief Executive Officer, Managing or Joint Managing Director, or other Executive Officer shall not, while holding that office, be subject to retirement by rotation or be taken into account in determining the Directors to retire in each year (Article 85 of the Articles of Association of the Company).

Accordingly, Mr.Masayoshi Yamashita retires under Articles numbered 85 and being eligible offer himself for re-appoint with the unanimous support of the Board of Directors.

Mr. S. S. N. Senthilvel retires under Article No.92 and being eligible offers himself for re-election with the unanimous support of the Board of Directors.

## DIVERSITY AND INCLUSION

SDF Board combines an appropriate and diverse balance of skills, industry experience and perspectives to objectively and effectively discharge its responsibilities. The Board of Directors of SDF shares well diversified profiles which enable them to contribute in wide areas of the business. Accordingly, the Board comprising of members with expertise in Finance & Accounting, risk management, legal, credit, business management, marketing and Information Technology .

The profiles of the Board disclosed in pages 28.

GRI 2-16

### COMMUNICATION OF CRITICAL CONCERNS

The Board can be made aware of any matters deemed critical through the reporting arrangements of Leadership Committees and Board Sub Committees, as described in the Governance Structure. There is a well-established, bottom-up monitoring and reporting mechanism for communicating macro environmental developments from branch level, regional level, to head office and from there, to Management Committees and Board Sub-committees.

There were no sudden critical concerns brought to the attention of the Board during the year under review, as the Board meets regularly, and operational and market information is communicated and reviewed on a regular basis.

GRI 2-17

### COLLECTIVE KNOWLEDGE OF THE BOD

As SDF is part of the Sarvodaya Movement, the Company's mandate is for sustainable development, in harmony with society and nature. The SDF Board comprises individuals who are aware of, and are supportive of, the Sarvodaya philosophy, and sustainable development. Therefore, there has been no requirement for separate dedicated measures to advance the collective knowledge, skills, and experience of the BOD on sustainable development. Board members themselves are interested in the subject and invest in advancing their knowledge on the subject, and share their knowledge at Board discussions.

### CHAIR OF THE BOARD

The Chair of the Board has specific responsibilities, including;

- Monitoring the effectiveness of the Board.
- Building and maintaining stakeholder trust and confidence.
- Ensuring executive participation of all Board members during Board meetings
- Setting the Board's annual work plan and the agendas, in consultation with the Company Secretary

The diverse experience, professional qualifications and competencies of the Chairman is disclosed under his profile on page 28.

### SEPARATION OF ROLES - CHAIRMAN AND CHIEF EXECUTIVE OFFICER

GRI 2-11

#### Chair of the highest governance body

The role of the Chairman and the Chief Executive Officer of the Company are distinct and clearly separated, ensuring the balance of power and authority. The Chairman of the Board leads the Board, preserving good corporate governance and ensuring that the Board works effectively. The Chief Executive Officer is accountable for implementation of strategic plan and driving performance.

There is no financial, business, family or other relationship between the Chairman and the Chief Executive Officer or other material relationship with other members of the Board which will impair their respective roles.

### DIRECTOR INDEPENDENCE

All Independent Non-Executive Directors of SDF met the criteria for independence according to the Corporate Governance Direction No. 03 of 2008 and any amendments thereof. The Board evaluates the independence annually through submitting annual declarations by the Independent Non-Executive Directors.

### APPOINTMENT OF SENIOR INDEPENDENT DIRECTOR

During the Financial year 2021/2022, Senior Independent Director, Mr.Dammika Ganegama was appointed with effect from 10th January 2022 to strengthen the independence of the Board.

### INFORMED DECISION MAKING

The Board as a whole and Directors individually, identify their duty to comply with the laws of the country. The Board ensures that processes and procedures are in place to ensure that the company complies with all applicable laws and regulations. The Company has a Board-approved procedure in place for seeking independent professional advice. The Board obtains independent professional advice in appropriate circumstances, at the expense of the Company.

### BOARD INDUCTION AND TRAINING

Every new Director was given appropriate induction about the company background, its business affairs and rules and regulations when first appointed to the Board. The Directors participate in trainings conducted by the corporate management and external parties in many business key areas.

## PERFORMANCE EVALUATION

To assess its performance, the Board subjects itself to a thorough performance evaluation annually in line with the Corporate Governance regulations set by the Central Bank of Sri Lanka. The Board recognises that the Board evaluation is an essential component of good governance.

## COMPANY SECRETARY

The Company Secretary guides the Board on discharging its duties and responsibilities, promoting best practices in Corporate Governance. All Directors have access to the Company Secretary. Their services are available to all Directors and they advise the Board on Board procedures, applicable rules and regulations and Corporate Governance matters.

## BOARD MEETINGS AND ATTENDANCE

The Board of Directors meets once a month and whenever the need arises. The Board convened Fourteen (14) routine monthly meetings during the year under review. The Board dedicates adequate time and effort to the meetings of the Board and sub committees to ensure that the duties and responsibilities are satisfactorily discharged. The Company Secretary maintains meeting minutes and circulates them to all Board members which shall be open for inspection at any reasonable time to any Director. The Board meeting attendance of the Board of Directors are indicated as follows.

No.	Name of the Director	Executive	Non-Executive	Independent	Non-independent	Attendance at Board meetings													
						Date:27.04.2021	Date:31.05.2021	Date:28.06.2021	Date:26.07.2021	Date:23.08.2021	Date:27.09.2021	Date:15.10.2021	Date:25.10.2021	Date:17.11.2021	Date:29.11.2021	Date:17.12.2021	Date:26.01.2022	Date:23.02.2022	Date:30.03.2022
1.	Mr. Channa de Silva		√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	
2.	Mr. Chamindha Rajakaruna		√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	
3.	Mr. S. S. N. Senthilverl		√	√	Appointed w.e.f. 15.07.2021	x	√	√	√	√	√	√	√	√	√	√	√	√	
4.	Mr. Dammika Ganegama		√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	
5.	Dr. Janaki Kuruppu		√	√	√	√	√	√	√	√	√	√	√	√	√	x	√	√*	
6.	Mr. Amrit CanagaRetna		√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	
7.	Mr. Shehara de Silva		√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	
8.	Mr. Sunil de Silva		√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	**	
9.	Mr. Masayoshi Yamashita		√	√	√	√	x	√	√	x	√	√	√	√	√	√	x	√	

\* Resigned w.e.f. 31.03.2022

\*\* Resigned w.e.f. 01.03.2022

- Mr.Ramesh Schaffter appointed to the SDF Board w.e.f 20th April 2022.

## BOARD SUB COMMITTEES

### GRI 2-13

#### Delegation of responsibility for managing impacts

In line with the section 8 (1) of Finance Companies (Corporate Governance) Direction No.03 of 2008 and amendments thereto and such prudential norms, the Company has set up following Board appointed committees:

- I. The Board Integrated Risk Management Committee (BIRMC)
- II. The Board Audit Committee (BAC)
- III. The Board Remuneration and Nomination Committee (BRNC)
- IV. The Related Party Transactions Review Committee (RPTRC)
- V. The Board Credit Committee (BCC)

The first two committees are mandatory under sections 8 (2) and 8 (3) of the Finance Companies (Corporate Governance) Direction 03 of 2008, which also provides guidelines on their composition, functions and responsibilities. The Board dissolved the Board Nomination Committee (BNC) during the year 2018 and the scope and responsibilities assigned to BNC was amalgamated with BRNC for effective functioning. All board committees report directly to the Board.

## DUTIES AND RESPONSIBILITIES OF THE BOARD COMMITTEES

Each committee is chaired by a Non-Executive Director who has the requisite qualifications and experience and is assisted by one or more of the Non-Executive Board Directors. The committees also co-opt Key Management Personnel and relevant Senior Managers in monitoring specific areas under their purview to committee meetings, for effective discussion and decision making. They attend meetings on invitation. The respective reports of the first four committees for the year ended 31st March 2022 are given in pages 150 to 155 in this Annual Report.

## BOARD COMMITTEE MEETINGS AND ATTENDANCE

The Board of Directors by Name, their Dates of Appointment and attendance to Board Committees are given in the table below. The Secretaries to these Committees keep detailed minutes of the Committee meetings.

Name	Status	Appointment Date to the Board	Attendance 2021/22				
			IRMC	BAC	BCC	RPTRC	BRC
Mr. Channa de Silva	Chairman/Non-Executive, Non -Independent Director	19th April 2011 and reappointed on 10th January 2022	-	6	5	2	3
Dr. Janaki Kuruppu	Non-Executive, Independent Director	22nd December 2015	-	-	4	-	3
Mr. Amrit CanagaRetna	Non-Executive, Independent Director	19th October 2018	5	6	5	2	-
Ms. Shehara De Silva	Non-Executive, Independent Director	27th June 2019	-	-	-	-	3
Mr. Sunil De Silva	Non-Executive, Independent Director	12th March 2020	5	-	4	2	-
Mr. Dammika Ganegama	Senior Independent Non-Executive Director	15th July 2020	-	-	--	-	3

### GRI 2-14

#### Role of the highest governance body in sustainability reporting

SDF's sustainability report is compiled under the direct supervision of the senior management with the full approval of the Board, and it is the Chairman of SDF who describes the Company's vision in terms of the sustainable growth strategy

## MANAGEMENT

### GRI 2-13

#### Delegation of responsibility for managing impacts

The Management of SDF is responsible for strategy execution and driving performance of the company.

#### MANAGEMENT'S ROLE IN THE STRUCTURE OF CORPORATE GOVERNANCE

The Chief Executive Officer, having authority and responsibility of planning, directing and controlling the activities of the Company in accordance with the delegated authority limits given to him by the Board, relies upon a number of management level committees to implement corporate strategies and policies in accordance with appropriate risk parameters in day-to-day management. Following management level committees have been formed by the Board to manage the day-to-day business and the operation of the Company with the main objective of achieving a sustainable growth while maintaining best practices in Corporate Governance.



#### APPRAISAL OF CHIEF EXECUTIVE OFFICER

The Chief Executive Officer is appraised by the Board annually using aligned to the short, medium and long-term objectives of the Company. The performance of the CEO is reviewed at the end of the financial year and the Board evaluates the set targets and the actual performance.

#### SHAREHOLDER COMMUNICATION

SDF is committed to promoting effective and open communication with all shareholders, ensuring consistency and clarity of disclosure at all times. SDF aims to engage with shareholders transparently and regularly in order to facilitate a mutual understanding of our respective objectives. SDF strives to be accessible to investors and pro-actively encourages all shareholders to participate at the AGM. Communication with shareholders governs by the Stakeholder communication policy of the Company.

#### ANNUAL GENERAL MEETING

The shareholders of SDF exercise their influence at the Annual General Meeting (AGM), which is the Company's highest decision-making forum. In addition, Extraordinary General Meetings can be called. The AGM resolves among other things;

- adopting the Annual Report and the Audited Financial Statements
- appointing the Auditors and fixing the remuneration of the Auditors or determining the manner in which such remuneration is to be fixed
- electing Directors in the place of those retiring by rotation or otherwise

Board subcommittee Chairmen, Directors and KMPs are available at the AGM to interact with Shareholders and respond to queries raised by shareholders. All shareholders are encouraged to exercise their voting rights at the Annual General Meetings.

#### EMPLOYEE PARTICIPATION IN CORPORATE GOVERNANCE

The active participation of the employees has helped serve the interest of the stakeholders. SDF has been able to do so by empowering employees to positively contribute towards good corporate governance. To assist and facilitate transparency, SDF has institutionalised processes across all functionalities.

Moreover, SDF has been able to provide a safe, secure and conducive environment for employees. Equally, SDF also ensures that human resource standards and regulations are followed. SDF does not condone discrimination of any kind.

#### FINANCIAL DISCLOSURES AND TRANSPARENCY

Financial Statements have been prepared in accordance with accounting standards comprising of SLFRSs/LKAs. Financial Statements are also in accordance with the Finance Business Act No. 42 of 2011, Companies Act No. 07 of 2007, Directions issued by Central Bank of Sri Lanka and internal policies.

Messrs, Ernst and Young are the Independent Auditors of the Company. The External Auditors are permitted to act independently without the intervention of the Corporate Management or the Board of Directors. All the information required by the External Auditors has been provided to them.

#### COMPLIANCE STATUS OF CORPORATE GOVERNANCE PRINCIPLES

The following disclosures are prepared and presented in conformity with the Finance Companies (Corporate Governance) Direction No. 3 of 2008, issued by the Monetary Board of the Central Bank of Sri Lanka and which came into operation with effect from 1st January 2009 and subsequent amendments thereto.

This report shall be deemed as SDF's Corporate Governance Report for the financial year 2021/22, prepared in compliance with this Direction.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
<b>2. Responsibilities of the Board of Directors</b>			
2 (1)	The Board of Directors (hereinafter referred to as the "Board") shall strengthen the safety and soundness of the finance company by.	Complied	The Company is headed by an effective Board of Directors with local as well as international experience and qualification drawn from backgrounds of banking and financial services, accounting, management, and economics, marketing as well as community management.
2 (1) (a)	Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company.	Complied	The strategies were re-visited and business plans were re-drawn in the year under review in line with current business model and products in pursuit. Financial projections were revised from FY 2021 to FY 2026 and presented to the Board in May 2021. The strategic business plan and the financial projections for FY 2021 to FY 2026 period ending 31st March 2026 includes overall business strategy of the Company. The revised targets were presented to the Regional Managers and Branch/CSCs Managers/OICs.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (b)	Approving the overall business strategy of the finance company, including the overall Risk Policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years.	Complied	<p>The strategic business plan and the financial projections for the succeeding 5-year period ending 31st March 2026 includes overall business strategy of the Company. The Company's strategic business plan contains measurable goals for FY 2021 to 2026 under long term goals and financial plan.</p> <p>The Company has established an Integrated Risk Management Policy and risk management procedures which is adequately linked and addressing the risks arising out of the approved strategy.</p> <p>The Integrated Risk Management Policy was initially approved by the Board in March 2020. The strategy formulation revolved around devising separate strategies related to core business and support functions of the Company namely; Credit, Recoveries, Finance, Operations, Marketing and HR for the attainment of overall objectives. The Board reviewed business strategy on a regular basis by discussing their concerns on each core business with the team and the in charge of the particular division. Board approves and reviews the annual budget which is derived from Company's strategic plan incorporating subsequent changes to expectations, market variables and business climate. Company's business strategy contains goals for FY 2021 to 2026 under long-term goals and financial plan.</p>
2 (1) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Complied	<p>The Company has a process to manage the identified risks and for the Board to discuss new strategies of the company, and the risks arising out of new strategies.</p> <p>The Board has delegated the function to manage risks identified by the Board to a Board subcommittee namely Board Integrated Risk Management Committee (BIRMC) and the BIRMC minutes are submitted to the Board for their review.</p>
2 (1) (d)	Approving a policy of communication with all the stakeholders, including depositors, creditors, shareholders and borrowers.	Complied	<p>A Board-approved Communication Policy is available addressing how the Company communicates with its stakeholders.</p>

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (e)	<p>Reviewing the adequacy and the integrity of the finance company's;</p> <p>Internal control systems; and</p>	Complied	<p>The Audit Committee on behalf of the Board monitors effectiveness of the internal control system on a continuous basis and reports to the Board on its findings. The Audit Committee updates the Board on material concerns and lapses in internal controls and recommends solutions on an ongoing basis. The routine internal audits carry out by Company's Internal Audit Department adds value to this process by verifying the effectiveness of the same through their routine internal audits.</p> <p>The report by the Board on the effectiveness of the Company's internal control mechanism over financial reporting is given in "Directors' Statement on Internal Controls over Financial Reporting" on page 174 and the Assurance Report from the External Auditor on the Internal Control over Financial Reporting is disclosed on page 178.</p>
	ii) Management information systems.	Complied	<p>Non-financial data are extracted from the MIS system and are compiled into presentable formats by the MIS Department. This information are then sent to the respective user departments to verify the accuracy and the integrity before submitting same to the Board and the Board subcommittees for their information and decision-making process.</p> <p>The Company has introduced an MIS Policy approved by Board in May 2017 which clearly defined process to review the reliability and the accuracy of non-financial information which are used by the Board and the Board subcommittees and the Board ensures the adequacy and the integrity of the Company's management information system. The policy has also established a sound data governance structure that ensures the effective control of data quality for both financial and non- financial data. Further, Company has a process flow chart for Credit Administration Unit (CAU), approved by BIRMC establishing responsibility to CAU to verify the accuracy and completeness of securities and data input to the Company's core-banking system.</p>
2 (1) (f)	<p>Identifying and designating Key Management Personnel, who are in a position to -</p> <p>i) significantly influence policy;</p> <p>ii) direct activities; and</p> <p>iii) exercise control over business activities, operations and risk management.</p>	Complied	<p>The Company has identified and designated the KMPs based on the definition given in the CBSL Directions as well Sri Lanka Accounting Standards.</p>

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (g)	Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel.	Complied	Articles 93 to 99 of the Company's Articles of Association speaks about the authority of Board of Directors under general power of Directors.  Areas of authority and key responsibilities for the Key Management Personnel have been defined in their individual job descriptions. Further, authority of KMPs defined under Delegation of Authority levels assigned to KMPs by the Board
2 (1) (h)	Ensuring that there is appropriate oversight of the affairs of the finance company by Key Management Personnel, that is consistent with the finance company's policy.	Complied	The Board has a process for appropriate oversight of the affairs of the Company by KMPs. The KMPs in-charge of the key business and operational areas of the Company presents the monthly business and operational reports to the Board for their review and to take timely action.
2 (1) (i) GRI 2-18 Evaluation of the performance of the highest governance body	Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including:  i) the selection, nomination and election of directors and key management personnel;  ii) the management of conflict of interests; and  iii) the determination of weaknesses and implementation of changes where necessary.	Complied  Complied  Complied	  As per Articles 85 to 92 of the Company, Board has the power to make decisions on selection, nomination and election of Directors.  Article 115 of the Company's Articles of Association addresses the provisions on management of conflicts of interest of Directors.  Weaknesses and implementation of changes where necessary are ought to be determined at the Board level through the process of submission of annual self-evaluations of the Board members. Copies of the Board evaluation forms are presented to the Board, for the Board members to discuss and critically asses how they have performed during the year and the weaknesses identified and for them to take required remedial action, if deem necessary.
2 (1) (j)	Ensuring that the finance company has an appropriate succession plan for Key Management Personnel.	Complied	The Board approved succession plan for key management personnel is in place which has been recommended by the Remuneration Committee
2 (1) (k)	Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied	The Board has scheduled regular meetings with the KMPs to review policies, establish communication lines and monitor progress towards corporate objectives.  KMPs participate in the monthly Board meetings by invitation and explain matters relating to the operations and performance of the Company to the Board when required.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (1) (l)	Understanding the regulatory environment.	Complied	The Board has taken measures and processes are in place to understand the regulatory environment, and the Company maintains relationship with regulators.  Regulatory requirements are discussed at the Management Committee (ManCom) meetings fortnightly. A regulatory compliance report, including CBSL Returns uploaded to the 'FinNet', signed jointly by the Compliance Officer and the CEO, are submitted to the Board of Directors at each monthly board meeting for Board's review and decision-making. Also, as a best practice, the Board agenda includes Central Bank correspondences which enables the Board to discuss and understand the regulatory environment and to take timely and appropriate actions.
2 (1) (m)	Exercising due diligence in the hiring and oversight of External Auditors.	Complied	Article 146 of the Company's Articles of Association defines the process of appointment of External Auditors recommended by the Board at the AGM.  Messrs Ernst & Young, Chartered Accountants, has been appointed as the Company's External Auditors since FY 2012/13. This firm was selected from the Panel of External Auditors transmitted to all LFCs by the Central Bank's Department of Supervision of Non-Banking Financial Institutions, under Section 30 (4) of the Finance Business Act No. 42 of 2011.  Oversight of the External Auditors is carried out by the Board Audit Committee (BAC) and the charter of the BAC addresses the same.
2 (2)	The Board shall appoint the Chairman and Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and Chief Executive Officer in-line with section 7 of this Direction.	Complied	The functions and responsibilities of the Chairman and the CEO has been clearly defined and approved by the Board of Directors.
2 (3)	There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge their duties to the finance company.	Complied	The Company has a Board-approved procedure in place for seeking independent professional advice. The Board obtains independent professional advice in appropriate circumstances, at the expense of the Company.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
2 (4)	A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied	The Company's Related Party Transaction Policy approved by the Board, governs Directors' responsibilities to abstain from voting in relation to a matter in which he/she or any of his/her relatives or a concern in which he/she has substantial interest.
2 (5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	Complied	The Company has a Board-approved formal schedule of matters.
2 (6)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Banking Financial Institutions of the situation of the finance company prior to taking any decision or action.	Complied	Liquidity position of the Company is reported to the Central Bank of Sri Lanka on a weekly basis. No such situation has arisen so far for the Board to take any decision or action or inform the Director of the Supervision of Non-Banking Financial Institutions of Central Bank of Sri Lanka.
2 (7)	The Board shall include in the finance company's Annual Report, an Annual Corporate Governance Report setting out the compliance with this Direction.	Complied	The Board has included the Corporate Governance Report in all its Annual Reports published.  The Corporate Governance Report is published on pages 97 to 142 of this Annual report.
2 (8)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain records of such assessments.	Complied	The Company has adapted a scheme of self-assessment to be undertaken by each Director annually and those records are maintained by the Company Secretary.
<b>3. Meetings of the Board</b>			
3 (1)	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Complied	Board has met 14 times during the year under review.  The consent of the Board is usually obtained at meetings with due notice given with Board papers. Consent obtained by circulation has been kept at minimal.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
3 (2)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied	Company has established a procedure to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
3 (3)	A notice of at least seven days shall be given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice shall be given.	Complied	The Company has complied with the 7 day notice requirement. Agenda letters have been circulated by our Company Secretary to the Board of Directors at least 7 days prior to the Board meeting to provide all Directors an opportunity to attend.
3 (4)	A Director, who has attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director, provided that participation at the Directors' meetings through an alternate Director shall, however be acceptable as attendance.	Complied	All Directors have attended at least two-thirds of the meetings in the period of twelve months and also, attended at least one meeting of the immediately preceding three consecutive meetings held.  The Board of Directors attendance at Board Meetings are disclosed on page 100 to this Corporate Governance Report.  No alternative directors appointed during the period under review.
3 (5)	Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied	The Board has appointed Messrs, PW Corporates Secretarial (Pvt) Limited, as the Company Secretary to carry out all functions and responsibilities in accordance with statutory and regulatory requirements.
3 (6)	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied	Chairman prepares the agenda and Company Secretary circulates same.
3 (7)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied	A Board-approved procedure is in place to enable all Directors to access the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
3 (8)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied	The Company Secretary maintains meeting minutes and circulates them to all Board members which shall be open for inspection at any reasonable time to any Director.
3 (9)	<p>Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following:</p> <p>(a) a summary of data and information used by the Board in its deliberations;</p> <p>(b) the matters considered by the Board;</p> <p>(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence;</p> <p>(d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations</p> <p>(e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted and</p> <p>(f) the decisions; and Board Resolutions.</p>	Complied	<p>The Company Secretary records the proceedings of the meetings and the decisions taken throughout in sufficient detail.</p> <p>Detailed minutes are kept covering the given criteria and the Board minutes contain the required details such as, individual views of the different members, ultimate decision of the Board, whether it complies with strategies and policies of the Company and further data, reports and information used by the Board members in arriving at the decisions</p>

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
<b>4. Composition of the Board</b>			
4 (1)	Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than 5 and not more than 13.	Complied	The Board consisted of Board of Directors within the range of 7-9 throughout the year which is in line with the Direction
4 (2)	Subject to the transitional provisions contained herein and subject to section 5 (1) of this Direction, the total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years. The total period in office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.	Complied	The total period of service of Non-Executive Directors has not exceeded nine years except the service period of Mr.Channa De Silva who reappointed as the Chairman - Non Independent Non-Executive Director w.e.f 10th January 2022 upon approval received from the Central Bank of Sri Lanka.
4 (3)	Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a Director of the finance company (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Company.	Complied	All Directors of the Board are Non-Executive Directors. The Chief Executive Officer is not a member of the Board.

# GOVERNANCE AND COMPLIANCE

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Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4 (4)	With effect from three years commencing 1st January 2009, the number of Independent Non-Executive Directors of the Board shall be at least one-fourth of the total number of Directors. A Non-Executive Director shall not be considered independent if such Director;	Complied	The Board consisted of adequate number of Independent directors throughout the year.
4 (4) (a)	has shares exceeding 2% of the paid-up capital of the finance company or 10% of the paid-up capital of another finance company;		
4 (4) (b)	has or had during the period of two years immediately preceding his appointment as Director, any business transactions with the finance company as described in section nine hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;		
4 (4) (c)	has been employed by the finance company during the two-year period immediately preceding the appointment as Director;		
4 (4) (d)	has a relative, who is a Director or Chief Executive Officer or a Key Management Personnel or holds shares exceeding 10% of the paid-up capital of the finance company or holds shares exceeding 12.5% of the paid-up capital of another finance company;		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4 (4) (e)	represents a shareholder, debtor or such other similar stakeholder of the finance company;		
4 (4) (f)	is an employee or a Director or has a shareholding of 10% or more of the paid-up capital in a Company or business organisation;		
4 (4) (f) (i)	which has a transaction with the finance company as defined in section nine, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or		
4 (4) (f) (ii)	In which any of the other Directors of the finance company is employed or is a Director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company; or		
4 (4) (f) (iii)	In which any of the other Directors of the finance company has a transaction as defined in section nine, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the finance company.	Complied	No Alternate Directors were appointed during the year.
4 (5)	In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.		
4 (6)	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied	The Board of Directors has the necessary competencies, and possesses academic and professional qualifications in diverse fields to serve as members of the Company's Board, as disclosed in their profiles on pages 28 to 31 of this Annual Report.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4 (7)	With effect from three years commencing 1st January 2009, a meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one-half of the number of Directors that constitutes the quorum at such meeting are Non-Executive Directors.	Complied	<p>As per Article 105 of the Company's Article of Association, a quorum for a meeting shall be one third (1/3) of the Directors. The required quorum has been complied with at all Board meetings.</p> <p>Since all the Directors of the Company were Non-Executive Directors, this requirement was met at all meetings of the Board convened during the year.</p>
4 (8)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the finance company. The finance company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance Report which shall be an integral part of its Annual Report.	Complied	<p>The Company has expressly identified and separately disclosed the names of all Independent, Non-Executive Directors in all corporate communications as required by this section of the Direction.</p> <p>The Board of Directors profiles disclosed from pages 28 to 31 of this Annual Report also provides the required details.</p>
4 (9)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied	Article 92 of the Articles of Associations of the Company describes a clearly defined procedure for appointment of a new Director to the Board. The Company also has established a process for appointing new Directors to the Board.
4 (10)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied	Article 91 and 92 of the Articles of Association of the Company describes the process to fill a casual vacancy subject to the election by shareholders at the first AGM.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
4 (11)	If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	Complied	Resignation or removal of Directors and the reasons are duly informed to the Central Bank of Sri Lanka and other regulatory authorities..
<b>5. Criteria to Assess the Fitness and Propriety of the Directors</b>			
5 (1)	Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a finance company, except with the prior approval of the Monetary Board according to the amendment to the Corporate Governance Direction No.05 of 2020.	Complied	As at 31st March 2022 and at present, all Directors of the Company were below the age of 70 years.
5 (2)	A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies / societies/bodies corporate, including associate companies and subsidiaries of the finance company.	Complied	There are no Directors who hold office as a Director of more than 20 companies.
<b>6. Delegation of Functions</b>			
6 (1)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied	<p>The Board is empowered by the Article 95 of the Article of Association of the Company to delegate its powers to a committee of Directors or to a Director or Employee upon such terms and conditions and with such restrictions as the Board may think fit.</p> <p>All delegations are made in a manner that it will not hinder the Board's ability to discharge its functions.</p>

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
6 (2)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied	Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.  Delegated Authority limits in relation to approving of credit facilities are recommended by the Board Credit Committee and approved by the Board. Delegated Authority in relation to operation, expenses, signing of cheques and other correspondences are recommended by the Integrated Risk Management Committee and approved by the Board.
<b>7. The Chairman and the Chief Executive Officer</b>			
7 (1)	The roles of Chairman and Chief Executive officer shall be separated and shall not be performed by the one and the same person after three years commencing from 1st January 2009.	Complied	Role of Chairman and CEO are separate and are held by two individuals that are appointed by the Board, thereby, ensuring the power and authority.
7 (2)	The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Complied	The Chairman is a non-independent non-executive director and Mr. Dammika Ganegama, Independent Non-Executive Director was designated as the Senior Director w.e.f 10th January 2022.
7 (3)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship (s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	There is no financial, business, family or other relationship between the Chairman and the Chief Executive Officer which will impair their respective roles.  Also, there is no financial, business, family or other material relationship among other members of the Board as disclosed on page 99 of this Corporate Governance Report.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
7 (4)	The Chairman shall: (a) provide leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.	Complied	Functions and responsibilities of the Chairman approved by the Board includes the requirements stipulated and further the self-evaluation form includes this requirement.  Self-evaluation process ensures that the Chairman provides leadership to the Board, the Board works effectively and discharges its responsibilities and all key and appropriate issues are discussed by the Board in a timely manner.
7 (5)	The Chairman shall be primarily responsible for preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Complied	Chairman prepares the agenda and Company Secretary circulates it.
7 (6)	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied	The Agenda/Minutes of previous meetings/Board papers and other documents are delivered to every individual Board Director in advance, giving them adequate time to peruse the issues arising at each Board meeting, as per section 3 (6) above. The Company has circulated the Agenda, papers to Directors seven (7) days prior to the meeting.  The Chairman ensures, that all Directors are properly briefed on issues arising at Board meetings by submission of the detailed agenda and board papers prior to the meetings. Further, agenda has adequate information in relation to the agenda items.
7 (7)	The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Complied	The Chairman complies with this provision by nominating Directors for the oversight of Board related committees. The Directors have made full and active contribution to the Board's affairs and to the decisions taken at the Board.
7 (8)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	Complied	The Company does not have any Executive Directors. Nevertheless, the Chairman facilitates the contribution of the Non-Executive Directors and ensures that a constructive relationship exists between the Board as a whole by providing an equal opportunity to all Directors to actively participate in the Board's affairs.
7 (9)	Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied	As a Non-Executive Director, the Chairman is not directly engaged in any executive duties including supervision of Key Management Personnel.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
7 (10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied	The Board attaches considerable importance to the maintenance of constructive relationships with the shareholders and considers the AGM and other General Meetings to be the formal opportunity for dialogue and communication between the Company and the shareholders. Accordingly, these meetings provide the principal opportunity for the Board to meet the shareholders and for the Chairman to explain the Company's progress and clarify matters that shareholders refer to the Board and the Management.
7 (11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the finance company's operations and business.	Complied	The Chief Executive Officer is the apex executive of the Company. Board has delegated him with the authority of detailed planning and implementation of the strategic objectives and policies of the Company and day-to-day operations of the Company in accordance with appropriate risk parameters.
<b>8. Board Appointed Committees</b>			
8 (1)	Every finance company shall have at least the two Board Committees set out in sections 8 (2) and 8 (3) hereof. Each Committee shall report directly to the Board. Each Committee shall appoint a Secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the Committee.  The Board shall present a report on the performance, duties and functions of each committee, at the Annual General Meeting of the Company.	Complied	During the financial year 2022, there were five (05) Board appointed Committees directly reporting to the Board, namely; the Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board Credit Committee (BCC), Board Remuneration and Nomination Committee (BRNC) and Related Party Transactions Review Committee (RPTRC).  Each committee has a secretary that arranges its meetings, maintains minutes, records and carries out other secretarial functions under the supervision of the Chairman of the respective committees.  Pages 150 to 155 provides the details of the scope and composition of the above committees.
8 (2)	Audit Committee The following shall apply in relation to the Audit Committee:		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (a)	The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied	Chairman of the Board Audit Committee (BAC), Mr. Channa de Silva, is a non Independent, Non-Executive Director. He holds a Bachelor's Degree from the University of Colombo and Master's Degrees from Harvard University and Melbourne University. Fellow of the Chartered Institute of Management Accountants (FCMA - UK) and Fellow of the Chartered Certified Accountants (FCCA - UK).
8 (2) (b)	The Board members appointed to the Committee shall be Non-Executive Directors.	Complied	All the members appointed to the BAC are Non-Executive Directors.  Chief Executive Officer and other Key Management Personnel and the External Auditors, Ernst & Young, present at the meeting/s by invitation.
8 (2) (c)	The Committee shall make recommendations on matters in connection with:	Complied	The Company has complied with the Direction issued by the Central Bank of Sri Lanka to select an External Auditor from the panel of authorised auditors to audit the accounts of licensed finance companies. The Company has appointed Messrs, Ernst & Young (Chartered Accountants) as the External Auditor in year 2012.
8 (2) (c) (i)	The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;	Complied	The Board Audit Committee has at its meetings during the year under review recommended that:  i) Messrs, Ernst & Young, Chartered Accountants be reappointed as the External Auditors of the Company for the financial year 2021/22; ii) the implementation of Central Bank guidelines issued to Auditors from time to time; and iii) the application of Sri Lanka Accounting Standards (LKASs/SLFRSs).  The Committee during the year met the External Auditors on three (3) occasions. Main objective of these meetings were to discuss their external audit plan, discuss audited accounts, and to discuss Management Letter of external auditors.  A policy has been established in relation to the service period, audit fee and resignation or dismissal of the Auditor which has addressed that the engagement partner does not exceed five (05) years, and is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.  Resignation or dismissal of the auditor has not taken place during the period under review and the audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term.
8 (2) (c) (ii)	The implementation of the Central Bank guidelines issued to Auditors from time to time;		
8 (2) (c) (iii)	The application of the relevant accounting standards; and		
8 (2) (c) (iv)	The service period, audit fee and any resignation or dismissal of the Auditor, provided that the engagement of an audit partner shall not exceed five years and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (d)	The Committee shall review and monitor the External Auditors' independence and objectively and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	<p>The Board Audit Committee monitors and reviews the External Auditors' independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.</p> <p>The Company's External Auditors for financial year 2021/22, Messrs Ernst &amp; Young, Chartered Accountants, have provided a declaration of their independence to the Board Audit Committee in terms of the relevant rules. The Auditor's Engagement Letter submitted to the committee provide evidence of Auditor's independence, and the audit is carried out in accordance with the SLAS.</p>
8 (2) (e)	The Committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditors' independence or objectivity. When assessing the External Auditors' independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:	Complied	The Board Audit Committee with the approval of the Board of Directors has developed and implemented a policy for engagement of External Auditors to provide non-audit services to safeguard the Auditors' independence and objectivity.
8 (2) (e) (i)	whether the skills and experience of the Auditor make it a suitable provider of the non-audit services;		
8 (2) (e) (ii)	whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by External Auditor; and		
8 (2) (e) (iii)	Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the Auditor, pose any threat to the objectivity and/or independence of the External Auditor.		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (f)	The Committee shall, before the audit commences, discuss and finalise with External Auditors the nature and scope of the audit, including:	Complied	<p>The Committee has before the audit commences, discussed and agreed upon the audit plan for the audit.</p> <p>Scope of the audit includes an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting and the preparation of financial statements in accordance with relevant accounting principles and reporting obligations.</p> <p>The Company has appointed Messrs. Ernst &amp; Young, as the External Auditor of the Company has hence, the coordination between Auditors where more than one Auditor was involved was not required during the period under review.</p>
8 (2) (f) (i)	an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting;		
8 (2) (f) (ii)	the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and		
8 (2) (f) (iii)	The co-ordination between Auditors where more than one Auditor is involved.		
8 (2) (g)	The Committee shall review the financial information of the finance company, in order to monitor the integrity of the Financial Statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure and the significant financial reporting judgments contained therein. In reviewing the finance company's Annual Report and accounts and periodical reports before submission to the Board. The Committee shall focus particularly on -	Complied	<p>The Committee periodically reviews the financial information of the Company in order to monitor the integrity of the Financial Statements of the Company and other financial disclosures.</p> <p>Also, Board Audit Committee has a process to review the financial information of the Company as required by the Direction when the Annual Audited Financial Statements and reports prepared for disclosure are presented to the Committee by the Head of Finance in attendance with the External Auditors in order to monitor the integrity of the Financial Statements of the Company.</p>
	<ul style="list-style-type: none"> <li>i) major judgmental areas;</li> <li>ii) any changes in accounting policies and practices;</li> <li>iii) significant adjustments arising from the audit;</li> <li>iv) the going concern assumption; and</li> <li>v) the compliance with relevant accounting standards and other legal requirements.</li> </ul>		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied	The Committee has met the External Auditors in the absence of the Key Management Personnel in three occasions during the year under review. Each Committee Member has had a personal conversation with External Auditors for better governance.
8 (2) (i)	The Committee shall review the External Auditors' Management Letter and the Management's response thereto.	Complied	The Committee has reviewed and discussed the External Auditors' Management Letter for financial year 2020/21 and the Management responses thereto and provided necessary guidance to the management for improvement/ implementation of better internal controls, best practices and governance.
8 (2) (j)	The Committee shall take the following steps with regard to the internal audit function of the finance company:		
8 (2) (j) (i)	Review the adequacy of the scope, functions and resources of the Internal Audit Department and satisfy itself that the department has the necessary authority to carry out its work;	Complied	<p>The Committee has discussed the Internal audit scope, function and resources of the staff requirements.</p> <p>Company has an Internal Audit Charter established at the company approved by the Board Audit Committee which covers to provide independent, objective assurance and support designed to add value and improve the Company's operations and systems of internal controls. The Board Audit Committee oversees the proper functioning of internal audit and make changes to internal audit charter when necessary.</p> <p>The Internal Audit Department assists the Company with accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, governance and accountability processes.</p>
8 (2) (j) (ii)	Review the internal audit programme and results of the Internal Audit process and, where necessary, ensure that appropriate action are taken on the recommendations of the Internal Audit Department;	Complied	The Committee has reviewed and approved the Internal Audit Plan for the financial year 2021/22 presented by the Internal Audit Department prepared based on overall risk assessment and the significant audit observations made during the previous year. This plan also includes the scope, functions and the resources of the Internal Audit Department.
8 (2) (j) (iii)	Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	Complied	Assessment of the Internal Audit staff evaluations and Audit Committee performance has been carried out by the Audit Committee Chairman. Assessment of the performance of the Head of Internal Audit has also been carried out.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (j) (iv)	Recommend any appointment or termination of the head, senior staff members and out sourced service providers to the Internal Audit function.	Complied	No appointment or termination of the head, senior staff members and outsourced service providers to the Internal Audit function took place during the year under review.
8 (2) (j) (v)	Ensure that the Committee is apprised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning:	Complied	The Committee appraises. However, there were no resignations of senior staff members of the Internal Audit Department or Head of the Department during the financial year.
8 (2) (j) (vi)	Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied	<p>The Internal Audit Charter of the Company addresses that the audit work should be performed with impartiality, proficiency and due professional care. Accordingly, the Internal Audit functions have been performed impartially and with proficiency and due care.</p> <p>The Head of the Internal Audit Department directly reports to the Committee thus ensuring the independence and impartiality of the Internal Audit Department.</p>
8 (2) (k)	The Committee shall consider the major findings of internal investigations and the Management's responses there to.	Complied	<p>Based on the reports submitted by the Internal Audit Department, the Committee reviews and considers major audit findings and the Management's responses thereto.</p> <p>Further, the Committee has instructed the Head of Internal audit that all investigations reports to be discussed in the Management Audit Committee level and disciplinary actions/ decisions taken by the Management Audit Committee to be communicated to the Committee as a summarised report for discussion and instructions to the Management for future cause of actions.</p>
8 (2) (l)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least once in six months, the Committee shall meet with the External Auditors without the Executive Director being present.	Complied	Although the Board Audit Committee does not comprise any Executive Directors, the Committee met with the External Auditors in three (3) occasions during the current financial year. Chief Executive Officer and the other Key Management Personnel attended these meetings on invitation.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (m) (i-iv)	The committee shall have: i) explicit authority to investigate into any matter within its terms of reference; ii) the resources which it needs to do so; iii) full access to information; iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied	The Board-approved Terms of Reference of the Board Audit Committee mandates explicit authority to investigate into any matter within its purview and take necessary action thereto.  'Board Audit Committee Report', from pages 152 to 153 this Corporate Governance Report, provides a summary of the Terms of Reference of the Committee.
8 (2) (n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied	There were six (6) meetings of the Board Audit Committee during the financial year 2021/22 Page 152 of this Annual Report, provides the details of the meetings of the Board Audit Committee during the financial year 2021/22 and the members attendance thereat.
8 (2) (o) (i-iii)	The Board shall, in the Annual Report, disclose in an informative way - i) details of the activities of the Audit Committee; ii) the number of Audit Committee meetings held in the year; and iii) details of attendance of each individual member at such meetings.	Complied	The 'Board Audit Committee Report' from pages 152 to 153 of this Annual Report, provides details of the activities of the Committee and attendance of members at meetings of the Committee.
8 (2) (p)	The Secretary to the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the Committee meetings.	Complied	In accordance with the Terms of Reference, Head of Internal Audit functions as the Secretary to the Board Audit Committee. The Secretary to the Committee records and maintains minutes of all committee meetings in sufficient detail.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (2) (q)	The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the External Auditor.	Complied	The Company has established a 'Whistle-Blower Policy' which has been approved by the Board Audit Committee and Board of Directors and practiced through-out the Company. The whistle blower matters are submitted to the Committee for their review and instructions.  The board has reviewed and approved the updated policy in April 2021.
8 (3)	Integrated Risk Management Committee  The following shall apply in relation to the Integrated Risk Management Committee (IRMC):		
8 (3) (a)	The Committee shall consist of at least one Non-Executive Director, CEO and Key Management Personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.  The Committee shall work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied	The Committee consists of an Independent Non- Executive Director and invitees as the CEO and the Key Management Personnel supervising broad risk categories such as credit, market, liquidity, operational and strategic risk.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (3) (b)	The Committee shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	Complied	The BIRMC minutes are submitted to the Board within seven (7) days of the Committee meeting. This includes the risks discussed at BIRMC meeting, mitigation actions proposed by the Committee and the responses received from the risk owners.  The Company has assessed the risks in relation to strategic risks (core capital), credit risks, market risk, and liquidity risks in particular and detail reports are submitted and discussed at BIRMC.
8 (3) (c)	The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied	Committee has initiated action to review the adequacy and effectiveness of the Asset-Liability Committees' benchmarking against on its current TOR.  The committee has taken for discussion the key areas of concerns of other management level committees at the BIRMC. The committee has reviewed in full the adequacy and the effectiveness of other Management level committees during the year under review and provided the necessary guidance and direction to those committees for effective functioning of those committees in relation to their TORs.
8 (3) (d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Complied	Committee reviews risk assessment reports and take prompt corrective action to mitigate the effects of specific risks.
8 (3) (e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied	The Committee meets at least quarterly each year. The Committee has met five times during the financial year 2021/22. Page 155 provides the details of the meetings of the Committee during financial year 2021/22 and the members' attendance thereat.
8 (3) (f)	The Committee shall take appropriate action against the officers responsible for failure to identify specific risk and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka.	Complied	Risks are identified collectively by the Board Integrated Risk Management Committee and Assets and Liabilities Committee (ALCO) and such decisions are taken collectively.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
8 (3) (g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied	The Committee submits the minutes of the BIRMC to the next immediate board meeting which described fully the risks applicable to the Company and mitigating actions discussed seeking the Board views and actions deemed necessary. The Head of Risk prepares a detailed risk assessment report of the Company and presents at each BIRMC. These risk assessments are categorically discussed at each BIRMC and necessary guidance is given to the management to take prompt mitigating actions.  The Company has initiate actions to submit a separate risk assessment report to the next immediate Board meeting within a week of each BIRMC meeting in future.
8 (3) (h)	The Committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved polices on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied	Compliance officer monitors compliance of CBSL rules, regulations and directions issued under the Finance Business Act and submit a monthly compliance report to the Board for their review. Monitoring compliance of other applicable laws, internal controls and approved policies on all areas of business operations is carried out by the Risk and Compliance Departments.
<b>9. Related Party Transaction</b>			
9 (1)	The following shall be in addition to the provisions contained in the finance companies (Lending) Direction, No. 1 of 2007 and the finance companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
GRI 2-15 Conflicts of interest  9 (2) (a-g)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction: (a) a subsidiary of the finance company; (b) any associate Company of the finance company; (c) a Director of the finance company; (d) a Key Management Personnel of the finance company; (e) a relative of a Director or a Key Management Personnel of the finance company; (f) a shareholder who owns shares exceeding 10% of the paid-up capital of the finance company; (g) a concern in which a Director of the finance company or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid-up capital of the finance company, has substantial interest.	Complied	The Company has developed a Related Party Transaction and Avoidance of Conflict of Interest policy and established a documented process approved by the Board identifying the particular related parties and to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with related parties as per the direction.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9 (3) (a-d)	The transactions with a related party that are covered in this Direction shall be the following: (a) granting accommodation; (b) creating liabilities to the finance company in the form of deposits, borrowings and investments; (c) providing financial or non-financial services to the finance company or obtaining those services from the finance company; (d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.	Complied	The Company has established a Board-approved documented procedure to identify and report the types of transactions with related parties that is covered by this Direction.
9 (4)	The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the finance company. For the purpose of this section, 'more favourable treatment' shall mean:	Complied	The Company has in place a Board-approved Related Party Transaction and Avoidance of Conflict of Interest Policy whereby the categories of persons who shall be considered as 'related parties' has been identified.  Additionally, the Company has controls in place to ensure that the finance company does not engage in transactions with related parties as defined in Direction 9 (2) above, in a manner that would grant such parties "more favourable treatment" as defined in section 9(4) than that accorded to other constituents of the finance company.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
9 (4) (a)	Granting of 'total net accommodation' to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board.  The 'total net accommodation' shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.	Complied	Related party transactions that have been carried out during the year are disclosed under related party transactions on pages 233 to 234 of these Financial Statements.  The Company's Related Party Transaction and Avoidance of Conflict of Interest Policy clearly defines the responsibilities of the Board of Directors, among other things, to ensure that the Company does not engage in transactions with related parties in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the Company.
9 (4) (b)	Charging of lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty.		
9 (4) (c)	Providing preferential treatment, such as favourable terms, covering trade losses and/ or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties.	Complied	The Company has established a detective process and initiated post audits to ensure that the Company does not engage in transactions with related parties granting "more favourable treatment". The compliance officer extracts reports on related party transactions on all products and checks them manually to ensure that no "more favourable treatment" is accorded to related parties than other constituents of the Company.
9 (4) (d)	Providing or obtaining services to or from a related party without a proper evaluation procedure.		The company has established a Board Related Party Transaction Review Committee to check the governance of those transactions.
9 (4) (e)	Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.	Complied	The Company has developed a detective process that enables the Company to retrieve data on related party transactions throughout the Company's network and ensure that the Company does not engage in transactions with related parties in more favourable treatments.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
<b>10. Disclosures</b>			
10 (1)(a-b)	The Board shall ensure that – (a) annual Audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards and that, (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied	The Board has ensured that the Audited Financial Statements are prepared and published in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) and the formats prescribed by the regulators.  Pages 181 to 251 discloses the details of the Financial Statements, Accounting Policies and Notes to these Financial Statements published by the Company as mentioned above.  The Company has published the annual Audited Financial Statements and the periodical Financial Statements in newspapers in an abridged form in Sinhala, Tamil and English languages.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:		
10 (2) (a)	A statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	The required confirmation on preparation of the Annual Audited Financial Statements in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures is given in "Directors' Responsibility for Financial Reporting" on page 170 and the 'Independent Auditors' Report' on pages 178 to 180 of this Annual Report.
10 (2) (b)	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements has been done in accordance with relevant accounting principles and regulatory requirement.	Complied	The report by the Board on the effectiveness of the Company's internal control mechanism over financial reporting is given in "Directors' Statement on Internal Controls over Financial Reporting" on page 174 of this Annual Report.
10 (2) (c)	The External Auditor's certification on the effectiveness of the internal control mechanism referred to in sub para 2 (b) above, in respect of any statements prepared or published from the date of this Direction.	Complied	The Assurance Report from the External Auditor on the Effectiveness of Internal Control over Financial Reporting is disclosed on page 174 of this Annual Report.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
10 (2) (d)	Details of Directors, including names, transactions with the finance company.	Complied	Details of the Directors, including names and transactions with the Company have been adequately disclosed.  Profile of Board member are given on pages 28 to 31.  Refer Note. 43.1 on page 233 to the Financial Statements
10 (2) (e)	Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after 1st January 2010.	Complied	The remuneration paid to the Board of Directors is disclosed in aggregate in note number 43 to these Financial Statements on page 233 and in 'Report of the Board of Directors of the Affairs of the Company' on page 147 of this Annual Report.
10 (2) (f)	Total net accommodation as defined in section 9 (4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied	The Company did not have any accommodation outstanding in respect of each category of related parties as at the date of Statement of Financial Position, except for accommodations granted, if any, to KMPs disclosed under 10 (2) (g) below.  There were no net accommodations outstanding in respect of KMPs and each type of other related parties as at the year end.
10 (2) (g)	The aggregate values of remuneration paid by the finance company to its Key Management Personnel and the aggregate values of the transactions of the finance company with its Key Management Personnel during the financial year, set out by Broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied	The aggregate values of remuneration paid by the Company to its KMPs including Directors, amounted to Rs. 50.2 million.  There were no new accommodations granted to KMPs during the year. The value of deposits received from KMPs including Directors during the year, amounted to Rs. 6.1 million The payable balance including interest accrued on those deposits amounted to Rs. 423,000 as at the financial year end.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
10 (2) (h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Complied	The Report of the Board of Directors on the Affairs of the Company' on pages 143 to 149 and the 'Corporate Governance Report' on pages 97 to 142 of this Annual Report, describes the manner in which the Company has complied with prudential requirements, regulations, laws and internal controls during the financial year.  The Directors' Statement on Internal Control over Financial Reporting on page 177 of this Annual Report, confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The Company has obtained an independent assurance report from the External Auditors on the effectiveness of the Internal Control mechanism (page 178)
10 (2) (i)	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management or non-compliance with the Act and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Banking Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with measures taken by the finance company to address such concerns.	Complied	There were no regulatory and supervisory concerns on lapses in the Company's risk management system or non-compliance with the Finance Business Act and rules and directions thereunder that have been communicated by the Director of the Department of Supervision of Non-Banking Financial Institutions and required by the Monetary Board to be disclosed to the public.
10 (2) (j)	The External Auditor's certification of the compliance with the Corporate Governance Directions in the annual Corporate Governance Reports published from the date of this Direction.	Complied	The External Auditors have conducted an engagement in accordance with the principles set out in the Sri Lanka Standards on Related Service 4750 (SLSRS 4750) applicable to procedures agreed upon to meet the compliance requirement of this Direction.  We have obtained the Corporate Governance Factual Findings Report from the External Auditors.

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
<b>11. Transitional Provision</b>			
11 (1)	On the date of this Direction, if the number of Directors on the Board of a finance company is either less than 5 or exceed 13, such finance company shall comply with section 4 (1) hereof, within three years commencing on 1st January 2009.	Complied	The Company has complied with the transitional provisions encompassed under this Direction.  The Company did not have any Executive Directors during the financial year and on the date of this report.
11 (2)	On the date of this Direction, if the number of Executive Directors is more than one half of the number of Directors of the Board, the Board shall expressly identify the excess Executive Directors and inform the names of such excess Executive Directors to the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka within three years commencing 1st January 2009. On the expiry of three years commencing 1st January 2009, such excess Executive Directors shall not be considered as members of the Board.		The Company did not have any Director who has reached 70 years nor any Director having a Board position of over 20 companies/entities as at the financial year end.
11 (3)	The following transitional provision shall apply to the 9-year retirement requirement imposed under section 4 (2) of this Direction: A Director who has completed nine years as at 1st January 2009 or who completes such term at any time prior to 31st December 2009, may continue for a further maximum period of three years commencing 1st January 2009.		
11 (4)	The following transitional provision shall apply to the maximum age level imposed under section 5 (1) of this Direction:		

Rule Reference	Principle	Extent of Compliance	Affirmation/Extent of Adoption
11 (5)	The following transitional provision shall apply to the maximum 20 companies/ entity Directorship limitations imposed under section 5 (2) of the Direction: If any person holds post of Director in excess of the limitation given in section 5 (2), such person within a maximum period of 3 years commencing 1st January 2009, comply with the limitation and notify the Monetary Board accordingly.		
11 (6)	If for any reason such ill health or any disqualification specified in the Act, the Monetary Board considers the exemptions referred to in subsections 11 (3) and 11 (4) and 11 (5) should not be availed of, such grounds may be notified to the person by the Monetary Board and after a hearing, the Monetary Board limits the period of exemptions.		

## COMPLIANCE WITH CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017 ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Code Ref	Requirement	Complied	Reference within the report
A	<b>Directors</b>		
A.1	<b>The Board</b> Should be headed by an effective Board, which should direct, lead and control the company.		
A.1.1	Board should conduct regular meetings, provide information to the board on structured and regular basis	Complied	Board meetings and attendance Page 100
A.1.2	Role and responsibility of the Board	Complied	Board of Directors Page 98
A.1.3	Act in accordance with laws and seek professional advice	Complied	Informed decision making Page 99
A.1.4	Access to advice and services of the Company Secretary	Complied	Company Secretary Page 100
A.1.5	Independent judgement	Complied	Board composition Page 98
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company	Complied	Board meeting and attendance Page 100
A.1.7	Calls for resolutions by at least 1/3 of Directors	Complied	Necessity did not arise during the financial year
A.1.8	Board induction and training	Complied	Board induction and training, page 99
A.2	Chairman and Chief Executive Officer	Complied	Separation of roles -Chairman and Chief Executive Officer Page 99
A.3	Chairman's role in preserving good Corporate Governance	Complied	Chair of the Board Page 99
A.4	Availability of financial acumen	Complied	Board profiles Page 28
A.5	Board balance	Complied	Board composition Page 98
A.5.1	The Board should include sufficient number of Non-Executive Directors	Complied	Board composition Page 98
A.5.2	If the Board includes only three Non-Executive Directors, they should be independent	Complied	Board composition Page 98

Code Ref	Requirement	Complied	Reference within the report
A.5.3	Independence of Directors	Complied	Director Independence Page 99
A.5.4	Annual declaration of independence by directors	Complied	Director Independence Page 99
A.5.5	Annual determination of independence of Non-Executive Directors	Complied	Director Independence Page 99
A.5.6	Alternate Directors	Not applicable	No alternative director appointed during the financial year 2021/2022.
A.5.7 & A.5.8	Senior Independent Directors	Complied	Board composition Page 98
A.5.9	Annual meeting with Non-Executive Directors	Complied	Board meetings and attendance Page 100
A.5.10	Recording of dissent of minutes	Complied	Board meetings and attendance Page 100
A.6	Supply of information	Complied	Informed decision making Page 99
A.7	Appointments to the Board and Re-election	Complied	Board composition Page 98
A.7.1	Establishing a Nomination Committee, Chairman and Terms of Reference	Complied	Remuneration and Nomination Committee report. Page 150
A.7.2	Annual assessment of Board composition	Complied	Performance Evaluation Page 100
A.7.3	Disclosures on appointment of new directors	Complied	Board appointments Page 98
A.8	Directors to submit themselves for re-election	Complied	Retirement by Rotation and Re-Election of Directors. Page 98
A.9	Appraisal of Board and sub-Committee Performances	Complied	Performance Evaluation Page 100
A.10	Annual report to disclose specified information regarding Directors	Complied	Board profiles Page 28  Board Meetings and attendance, Page 100
A.11	Appraisal of the CEO	Complied	Appraisal of CEO Page 102

# GOVERNANCE AND COMPLIANCE

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Code Ref	Requirement	Complied	Reference within the report
<b>B</b>	<b>Directors' remuneration</b>		
B.1	Establish process for developing policy on executive and Director remuneration.	Complied	There were no Executive Directors on the Board of the company during the year 2021/2022.
B.2	Level and Make Up of Remuneration	Complied	Remuneration and Nomination Committee report Page 150
B.3	Disclosures related to remuneration in Annual Report Remuneration Policy statement, Aggregate Board remuneration paid	Complied	Remuneration and Nomination Committee report Page 150
<b>C</b>	<b>Relations with Shareholders</b>		
C.1	Constructive use of the AGM & other General Meetings	Complied	Annual General Meeting Page 102
C.2	Communication with shareholders	Complied	Shareholder Communication Page 102
C.3	Disclosure of major and material transactions	Complied	No major transaction during the year
<b>D</b>	<b>Accountability &amp; Audit</b>		
D.1	Present a balanced and understandable assessment of the Company's financial position, performance and prospects	Complied	SDF has reported a true and fair view of its financial position and performance for the year ended 31st March 2022 and at the end of each quarter of the financial year and all price sensitive information has been disclosed in a timely manner.
D.1.1	Balanced Annual Report	Complied	Directors' report in the Annual report, page 143
D.1.2	Balanced and understandable communication	Complied	Directors' report in the Annual report, page 143
D.1.3	CEO/CFO declaration	Complied	Chief Executive Officer's and Chief Financial Officer's Responsibility Statement, Page 172
D.1.4	Directors Report declarations	Complied	Directors' report in the Annual report, page 143
D.1.5	Financial reporting - statement on Board responsibilities  Statement on internal control		Directors' Responsibility for Financial Reporting page 170  Directors' Statement on Internal Control over Financial Reporting page 174
D.1.6	Management Discussion & Analysis		Management Discussion Analysis, page 47

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Code Ref	Requirement	Complied	Reference within the report
D.1.7	Net Assets < 50%	Complied	In the unlikely event of the net assets of the Company falling below 50% of Shareholders Funds the Board will summon an Extraordinary General Meeting (EGM) to notify the shareholders of the position and to explain the remedial action being taken.
D.1.8	Related Party Transactions Report	Complied	All related party transactions as defined in Sri Lanka Accounting standard 24 (LKAS 24) on 'Related Party Transactions' are disclosed in Note 43 to the financial statements on pages 233
D.2	Process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets	Complied	Risk Management Report of the Board Integrated Risk Management Committee, page 155 and Directors' Statement of Internal Control, page 174
D.3	Audit Committee	Complied	Report of the Board Audit committee, page 152
D.4	Related Party Transactions Review Committee	Complied	Related party transactions review committee report, page 154
D.5	Code of Business Conduct and Ethics	Complied	The code of conduct and ethics and the procedure for disseminating, monitoring and compliance with the code have been introduced company wide and the Chairman confirms that he is not aware of any material violations of the Code of Conduct.
D.6	Corporate Governance Disclosures		
E/F	<b>Institutional and other investors</b> Institutional and other investors	Complied	The company has 2,385 Ordinary voting shareholders of which above 1,321 are institutional shareholders. All shareholders are encouraged to participate at AGM and cast their votes. Investor relations hotline/email is open for any investor to reach out to the CEO or Directors if required.
G	<b>Internet of Things &amp; Cybersecurity</b>	Complied	Integrated Risk Management report, Page 156
H	<b>Principles of Sustainability Reporting</b>	Complied	Independent Assurance Report On Sustainability Reporting Page 258

## COMPLIANCE WITH LISTING RULES SECTION 7.6 AND 7.10 ISSUED BY THE COLOMBO STOCK EXCHANGE

Rule No	Requirement	Complied	Reference within the report
7.6 (i)	Names of persons who were Directors of the company during the financial year	Complied	Page 146
7.6 (ii)	Principal activities of the company and its subsidiaries during the year	Complied	Page 143
7.6 (iii)	Information on 20 largest shareholders at the end of the year	Complied	Page 67
7.6 (iv)	The public holding percentage	Complied	Page 66
7.6 (v)	Directors' and Chief Executive Officer's holding in shares	Complied	Page 67
7.6 (vi)	Information pertaining to material foreseeable risk factors	Complied	Page 68
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Not applicable	There were no material issues pertaining to employees and industrial relations.
7.6 (viii)	Information on building/land holdings and investment properties as at the end of the year	Complied	Page 216
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	Complied	Page 65
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and related information	Complied	Page 66
7.6 (xi)	Ratios and market price information on equity, debt, change in credit rating	Complied	Page 272
7.6 (xii)	Significant changes in the company's or subsidiaries' fixed assets	Complied	Page 214
7.6 (xiii)	Details of funds raised through a public issue, Rights issue and a Private placement during the year-	Complied	Page 68
7.6 (xiv)	Information in respect of Employee share ownership or stock option schemes	Not applicable	Currently, SDF has not introduced employee share ownership or stock option scheme.
7.6 (xv)	Disclosure pertaining to Corporate Governance practice in terms of rules 7.10.3, 7.10.5 c and 7.10.6 c of section 7 of the listing rules	Complied	Page 140
7.6(xvi)	Disclosure on related party transactions exceeding 10% of the equity or 5% of the total assets of the entity.	Complied	The Company did not have any Related Party Transactions exceeding these thresholds during the year
7.10.1	<b>Non-Executive Directors</b>		
7.10.1.(a)	Two or one -third of the directors, whichever is higher, should be Non-Executive Directors.	Complied	Page 146
7.10.1.(b)	The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	Complied	
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	Complied	

Rule No	Requirement	Complied	Reference within the report
7.10.2	<b>Independent Directors</b>	Complied	Page 146
7.10.2 (a)	Two or 1/3 of non-executive directors appointed to the board of directors, whichever is higher shall be 'independent'. As at 31st March 2022, there were three Independent Non-Executive Directors		
7.10.2 (b)	Each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence in prescribed format.	Complied	Page 99
7.10.3	<b>Disclosures relating to Directors</b>		
7.10.3 (a)	The board shall make a determination annually as to the independence or non-independence of each non-executive director and shall set out in the annual report the names of directors determined to be 'independent'.	Complied	Please refer pages 146 of the Annual Report.
7.10.3.(b)	In the event a director does not qualify as 'independent' as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report.	Not applicable	
7.10.3.(c)	A brief resume of each director on its board which includes information on the nature of his/her expertise in relevant functional areas.	Complied	Please refer pages 28 to 31 of the Annual Report.
7.10.3 (d)	Upon appointment of a new director to its board, the Entity shall forthwith provide to the Exchange a brief resume of such director for dissemination to the public.	Complied	Please refer pages 98
7.10.4	<b>Criteria for defining of Independence</b>		
7.10.4 (a-h)	Requirements for meeting criteria to be independent All independent directors of the company met the criteria for independency specified in this rule.	Complied	Page 146
7.10.5	<b>Remuneration Committee</b>		
7.10.5 (a)	A Listed Entity shall have a remuneration committee in conformity with, Composition - a minimum of two independent non-executive directors or of Non-executive directors a majority of whom shall be independent, whichever shall be higher.	Complied	Please refer to remuneration and nomination committee report on page 150
7.10.5 (b)	Functions - functions of remuneration committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Complied	Please refer to remuneration and nomination committee report on page 150

Rule No	Requirement	Complied	Reference within the report
7.10.5 (c)	<p>Disclosure in the Annual report</p> <ul style="list-style-type: none"> <li>The names of the Directors that comprises the remuneration committee</li> <li>A statement of the remuneration policy</li> <li>Aggregate remuneration paid to executive and non-executive directors.</li> </ul>	Complied	Please refer to remuneration and nomination committee report on page 150
7.10.6 (a)	<p>Audit Committee</p> <p>A Listed Entity shall have an audit committee in conformity with,</p> <p>(a) Composition - a minimum of two independent non-executive directors or a majority of independent Non-Executive Directors whichever is higher.</p> <ul style="list-style-type: none"> <li>Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings</li> <li>The Chairman of the Audit Committee or one member should be a member of a professional accounting body</li> </ul>	Complied	Please refer to the Audit committee report on page 152 of the Annual report.
7.10.6 (b)	<p>Function - Should be as outlined in the Section 7.10 of the Listing Rules</p>	Complied	Please refer to the Audit committee report on page 152 of the Annual report.
7.10.6.(c)	<p>Disclosure in the Annual Report</p> <ul style="list-style-type: none"> <li>The names of the Directors who comprise the Audit committee</li> <li>Make a determination of the independence of the auditors and shall disclose the basis for such determination</li> <li>A report by the audit committee, setting out the manner of compliance of the functions set out in section 7.10 of the Listing Rules.</li> </ul>	Complied	Please refer to the Audit committee report on page 152 of the Annual report.

The Directors of Sarvodaya Development Finance PLC. (SDF) take pleasure in presenting their Annual Report on the state of affairs of the Company together with the Audited Financial Statements for the year ended 31st March 2022 as required by Section 168 of the Companies Act No. 07 of 2007, Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended) and the Listing Rules of the Colombo Stock Exchange. It is also guided by the Recommended Best Practices on Corporate Governance.

This Report was approved by the Directors at its meeting held on 25th May 2022.

### CORPORATE PHILOSOPHY

The Vision and Mission Statements, the Guiding Values and the Arthadharma Geethaya (Song), express the overarching philosophy and culture of the Company.

### LEGAL FORM

The Company was a limited liability company incorporated in Sri Lanka on 1st January 2010 under the Companies Act No. 07 of 2007 bearing Registration No. PB 3795, converted to a public limited liability company on 6th January 2022 and was admitted to the Official List of the Colombo Stock Exchange on 15th December 2021. It commenced business operations as a Licensed Finance Company (LFC) on 19th December 2012, regulated under Section 5 (7) of the Finance Business Act No. 42 of 2011.

### LOCATION

The Company's Registered Office, which is also its Head Office, is located at 'No.155/A, Dr. Danister De Silva Mawatha, Colombo 08'. The contact details of the Company are given under Corporate Information.

### BRANCH NETWORK

As at 31st March 2022, the Company's branch network comprised 51 Branch Offices within the purview of nine Regional Offices (pages 265 to 266). Some of these entities had their beginnings as SEEDS' District and Sub-Offices. Now, each unit in the network has been rebranded with a new corporate identity and functions as a standalone entity. During the financial year, twenty one (21) Customer Service Centres (CSCs) were converted to fully-fledged branches and two (2) branches were rebranded and strategically relocated with greater visibility to enable our customers in those strategic locations to have easy access to our products and services. This move not only helped to retain the existing customers but also helped to attract new customers.

### REVIEW OF PERFORMANCE AND RISK MANAGEMENT

The Chairman's Message (pages 22 to 24) and the Chief Executive Officer's Review (pages 25 to 27) encapsulate the Company's business performance during the current financial year, set against the wider economic background as indicated in the Management Discussion and Analysis (pages 47 to 96). A detailed report on Assessing and Managing Risk is given in page 156 to 168.

### STATUTORY/REGULATORY COMPLIANCE

The disclosures in this Annual Report conform to the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011 and amendments thereto; as well as the Directions, Rules, Notices, Determinations and Guidelines, for Non-Bank Financial Institutions, issued by the Central Bank of Sri Lanka (CBSL) under enabling legislation. The Directors are also taking steps to resolve any issues of non-compliance and the Listing Rules of the Colombo Stock Exchange.

### PRINCIPLES ACTIVITIES

Pursuant to obtaining the finance companies license in December 2012, the Company's principal business activities during the year were deposit mobilisation, micro credit (represented by bulk loans to Sarvodaya Societies), micro credit including gold loans to individuals and individual entrepreneurs, PCBE (represented by micro credit to employees of pre-approved corporate business entities), corporate and retail credit (represented by personal loans, business loans, mortgage loans, SME and Leasing), and other credit facilities and related services.

### FINANCIAL STATEMENTS

The Financial Statements of the Company (pages 181 to 251), have been prepared in accordance with the Sri Lanka Accounting Standards and the Sri Lanka Financial Reporting Standards (SLFRSs /LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No.42 of 2011 the directions and guidelines issued under the said Finance Business Act and the Listing Rules of the Colombo Stock Exchange.

The Financial Statements of the Company duly signed by the Head of Finance and the Chief Executive Officer with the approval of the Chairman and a Director on behalf of the Board which are attached hereto form an integral part of the Annual Report.

### DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

In terms of Section 150(1) and 151 of the Companies Act No. 07 of 2007, The Directors confirm by declaration (page 170) that they are responsible for the preparing and presenting of the Financial Statements and that they give a true and fair view of the affairs of the Company for the year ended 31st March 2022.

# REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

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The Directors are of the view that the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes to the Financial Statements for the year ended 31st March 2022 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRSs/LKASs), the Companies Act No. 07 of 2007, the listing rules of the Colombo stock exchange, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Directions/Rules made under Finance Business Act No. 42 of 2011 and Directions issued thereto.

Furthermore, the Directors are satisfied that the Company has adequate resources to continue its operations in the foreseeable future and has adopted the 'going concern' basis in preparing these Financial Statements.

## DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board has issued a statement on the internal control mechanism of the Company as per Section 10 (2) (b) of Finance Companies (Corporate Governance) Direction No. 03 of 2008.

The Directors confirm by declaration (page 174) that they are responsible for the adequacy and effectiveness of the internal control mechanism in place in the Company. Recognising its responsibility in maintaining the safety and soundness of the Company and safeguarding its assets and resources, the Board has instituted an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and the process includes the system of internal control over financial reporting.

The Board confirms that apart from regularly reviewing this process, it has also instituted systems and procedures which comply with relevant laws and regulations to keep abreast of industry norms. The Board also affirms that the Company's internal control mechanism has been designed to provide reasonable assurance with regard to the reliability of financial reporting and that the preparation of Financial Statements has been carried out according to the Sri Lanka Accounting Standards (SLFRSs/LKASs), and the other regulatory requirements of the Central Bank of Sri Lanka.

## AUDITORS' REPORT

The Auditors' Report on the Financial Statements of the Company for the year in review is set out in this Annual Report (pages 178 to 180).

## ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The Board of Directors wishes to confirm that there were no changes to the Accounting Policies used by the Company during the year under review. The Directors are of the view that these policies have been applied consistently supported by informed judgements. Significant Accounting Policies together with the notes adopted in preparation of the Financial Statements of the Company is given from the pages 181 to 251 of these Financial Statements comply with the requirements of Lanka Accounting Standards 01 on "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

## ARTICLES OF ASSOCIATION AND CHANGES DURING THE YEAR

During the financial year under review, no revisions and/or amendments were made to the Company's Articles of Association.

## ACCOUNTING PERIOD

The financial accounting period reflects the information from 01st April 2021 to 31st March 2022.

## FINANCIAL RESULTS AND APPROPRIATIONS

### Interest Income

The Company recorded a total interest income of Rs. 1,822.32 million (Rs. 1,584.7 million in financial year 2021) for the year ended 31st March 2022. This represents a positive growth of total interest income by Rs. 237.57 million or 15% compared to the previous year. A more descriptive analysis of the interest income is given in note no. 6.1 (page 193) to these Financial Statements.

### Profit and Appropriations

The Company recorded a profit after tax of Rs. 215.47 million (a profit after tax of Rs. 183.4 million in financial year 2021) for the year ended 31st March 2022. This represents an increase of Rs. 32.16 million or 17.5% compared to the previous year. The Company recorded a total comprehensive income of Rs. 247.26 million (a total comprehensive income of Rs. 181.6 million in financial year 2021) for the year ended 31st March 2022.

As per the guidelines and criteria laid down in the Section 3 (b) (i) of Finance Companies (Capital Funds) Direction No. 1 of 2013 of the Central Bank of Sri Lanka, the Board of Directors transferred Rs. 10.77 million (Rs. 36.7 million in financial year 2021) to the Company's 'Statutory Reserve Fund' during the year under review.

Details of the Company's performance and appropriation of profit are tabulated below.

	2022 Rs. ('000)	2021 Rs. ('000)
Profit /(Loss) After Taxation	215,466.25	183,356.74
Profit Brought Forward from Previous Year	324,679.97	195,476.36
Profit Available for Appropriation	540,146.22	378,833.10
<b>Appropriations</b>		
Interim Dividend Paid	-	-
Other Comprehensive Income /(Expenses)	31,788.90	(15,505.81)
Transfer to Reserves	(10,773.31)	(36,671.35)
Expenses related to the Share Issue	(49,047.25)	(1,975.97)
Interim Dividend	(74,798.03)	-
Total Appropriation	(134,618.59)	(54,153.13)
Un-appropriated Profit Carried Forward	437,316.53	324,679.97
Proposed final dividend	Rs. 0.50 per share	-

## DIVIDEND ON ORDINARY SHARES

The Board of Directors declared interim dividend of Rs. 0.50 per share and paid on 26 May 2022. The Directors have recommended a final dividend of Rs. 0.50/- per share for the year under review to be approved by the regulator. Details of information on dividends are given in note no 15 to the Financial Statements on page 200.

## PROPERTY, PLANT & EQUIPMENT

The total capital expenditure incurred on Property, Plant and Equipment (including capital work in progress) of the Company in the year ended 31st March 2022 amounted to Rs. 13.83 million (Rs. 33.89 million in financial year 2021). The detail analysis of Property, Plant & Equipment belonging to the Company as at year end are disclosed in note no 25, on pages 214 to 217.

During the financial year under review, Company revalued its land and building as at 31st March 2022 to comply with the provisions of section 31 of LKAS 16: Property, Plant and Equipment. The details of such revaluation and the resulted revaluation surplus are fully described under note no 25 (Page 214-217) to these Financial Statements.

## STATED CAPITAL

The stated capital of the Company as at 31st March 2022 amounted to Rs. 2,696.11 million (Rs. 1,696.11 million as at 31st March 2021). The stated capital is the total of all amounts received by the Company in respect of the issued share capital. The Company issued 45,454,546 new ordinary shares during the financial year through a IPO to comply with CBSL core capital requirement.

## RESERVES

Total Reserves of the Company, including Retained Earnings, stood at Rs. 608.68 million (Rs. 485.27 million in the financial year 2021) at the end of the financial year.

A summary of Reserves of the Company at the end of the financial year is as follows.

	2022 Rs. ('000)	2021 Rs. ('000)
Statutory Reserve Fund	114,850.79	104,077.47
Revaluation Reserve	56,514.76	56,514.76
Retained Earnings	437,316.53	324,679.97
<b>Total</b>	<b>608,682.08</b>	<b>485,272.21</b>

## CONTINGENT LIABILITIES

There were no material contingent liabilities as at the reporting date except as disclosed in note no 38 on page 230 to these Financial Statements.

## OUTSTANDING LITIGATIONS

In consultation with the Company Lawyers, the Board of Directors opine that the pending litigations against the Company as at the reporting date will not have any material impact on the reported financial results or the future operations of the Company. The litigations against the Company are fully disclosed under note no 38 on page 230 to these Financial Statements.

## ENVIRONMENTAL PROTECTION

The Directors, to the best of their knowledge and belief, are satisfied that the Company has not engaged in any activities, which have caused adverse effects on the environment and it has complied with the relevant environmental regulations.

## EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events and/or circumstances that have arisen since the reporting date that would require adjustments to or disclosure in the financial statements, other than those disclosed in note no 45 on page 234 to these Financial Statements.

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## ISSUE OF SHARES OR DEBENTURES

The Company issued 45,454,546 shares during the financial year under review as a IPO and listed in the Colombo Stock Exchange with effect from 14 December 2021.

The Company did not issue any debentures during the financial year under review.

## SHARE INFORMATION

There were 2,385 shareholders registered as at 31st March 2022 (1,279 shareholders as at 31st March 2021). Top 20 shareholder and the shareholding structure information are set out on pages 67 and 66 under Financial Review.

## DIRECTORS' SHAREHOLDINGS

The Directors shareholding and the relevant interests of Directors in the shares of the Company as at 31st March 2022 and as at 31 March 2021 are disclosed in page 67.

## DIRECTORATE

Mr. Sunil De Silva resigned from the office of Non-Executive Non-Independent Director with effect from 1 March 2022 and Dr. Janaki Kuruppu resigned from the office of Non-Executive Independent Director with effect from 31 March 2022. Dr. Richard W.A. Vokes resigned from the office of Non-Executive Independent Director with effect from 19 April 2021. On receipt of approval from the Monetary Board of the Central Bank of Sri Lanka, the Board of Directors of the Company appointed Mr. Senthil Nandhanan Senthilvel as a Non-Executive Non Independent Director w.e.f 15 July 2021 and Mr. Ramesh Schaffter as a Non-Executive, Non Independent Director w.e.f 20 April 2022.

Accordingly, the following Directors held office during the financial year under review.

Name	Status
Mr. Channa de Silva	Chairman/Non-Executive, Non Independent Director
Dr. Richard W.A. Vokes	Non-Executive, Independent Director (Resigned w.e.f. 19 April 2021)
Mr. Masayoshi Yamashita	Non-Executive, Non Independent Director
Dr. Janaki Kuruppu	Non-Executive, Independent Director (Resigned w.e.f 31 March 2022)
Mr. Chamindha Rajakaruna	Non-Executive, Non-Independent Director
Mr. Amrit Kanagaretna	Non-Executive, Independent Director
Ms. Shehara De Silva	Non-Executive, Independent Director
Mr. Sunil De Silva	Non-Executive, Independent Director (Resigned w.e.f. 1 March 2022)
Mr. Dammika Ganegama	Non-Executive, Senior Independent Director
Mr. Senthil Nandhanan Senthilvel	Non-Executive, Non-Independent Director (Appointed w.e.f. 15 July 2021)
Mr. Ramesh Schaffter	Non-Executive, Non-Independent Director (Appointed w.e.f 20 April 2022)

The seven-member Board of Directors of the Company who held directorships as at 31st March 2022 are composed of distinguished professionals whose financial acumen in banking, finance, economics and allied fields have been invaluable in guiding the destinies of the Company during their tenure of office. The profiles of the Directors appear on pages 28 to 31.

## MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors held twelve (12) monthly meetings, during the year under review. The attendance schedule is given in the Corporate Governance Report on page 100.

## BOARD SUB-COMMITTEES

The Board has delegated some responsibilities to four (4) oversight committees without derogating from its ultimate responsibility to the Company. They are:

- Integrated Risk Management Committee (BIRMC);
- Board Audit Committee (BAC);
- Board Remuneration Committee (BRC);
- Related Party Transaction Review Committee (RPTRC) and;
- Board Credit Committee (BCC).

The Board dissolved the Board Nomination Committee (BNC) during the financial year 2018 and the scope and functionalities carried out by the same was delegated to the Board Remuneration Committee.

The composition, functions and responsibilities of the first four committees are set out in their respective reports as at 31st March 2022 and included in this Annual Report.

## MANAGEMENT LEVEL COMMITTEES

The Board also appointed five (5) management level committees in line with industry norms. These are:

- the Asset-Liability Management Committee (ALCO),
- the Management Audit Committee (MAC),
- the Management Committee (ManCom),
- the Management Credit Committee (MCC) and;
- the Product Development Committee (PDC).

## DIRECTORS' REMUNERATION

As required by Section 168 (1) (f) of the Companies Act No.07 of 2007, the Directors' fees and emoluments for the financial year ended 31st March 2022 and 31st March 2021 are stated below and disclosed under note no 43 to these Financial Statements on pages 233 to 234.

	2022	2021
	Rs. ('000)	Rs. ('000)
Directors' Fees and Emoluments	9,924	7,576

## CORPORATE GOVERNANCE

The Company's report on Corporate Governance, which appears on pages 97 to 142, complies with the Central Bank's Direction No. 3 of 2008 on Corporate Governance issued under enabling legislation.

The Board has obtained the Assurance Report from its External Auditors, Messrs Ernst & Young (Chartered Accountants) on the Internal Control over Financial Reporting and the same is disclosed on page 173. Also, the Company has obtained a factual findings reports on Corporate Governance from External Auditors over the compliance of corporate governance directions and the Company is in the process of strengthening the procedure.

## APPRAISAL OF BOARD PERFORMANCE

Each Board Director of the Company, in conformity with the Section 2(8) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008, undertakes a self-assessment annually by answering a self-assessment questionnaire. The Board of Directors undertook the self-assessment for the year under review. The extent of compliance is fully described under Rule Reference no 2 (8) on page 108 in the Company's report on Corporate Governance.

The Head of Compliance coordinated with the Directors and collected the responses during the financial year under review. However, due to the practical limitations and warranted circumstances that occurred from the outbreak of COVID-19 pandemic, the Directors' responses to the self-assessment questionnaire was submitted to the Board and discussed at the Board meeting held in the month of May 2022.

The Board also carried out an annual self-evaluation of its subcommittees to ensure that they discharge their duties and responsibilities satisfactorily, in terms of the Companies Act No. 07 of 2007, Finance Companies (Corporate Governance) Direction No. 03 of 2008, and the Best Practices of Corporate Governance.

## STATUTORY PAYMENTS

The Directors are satisfied, to the best of their belief and knowledge, that all statutory dues, vis-à-vis the Government and the Company's employees, have been paid up-to-date on a timely basis.

## EMPLOYEE SHARE OWNERSHIP AND PROFIT SHARING PLANS

There are no immediate plans to introduce employee share ownership and profit sharing scheme.

## AUDITORS

The Company's External Auditors during the period under review were Messrs Ernst & Young, Chartered Accountants. They were appointed with effect from 14th February 2013, pursuant to a Directive by the Central Bank of Sri Lanka (CBSL) in October 2012, where Licensed Finance Companies were required in terms of the Finance Business Act No. 42 of 2011, to appoint an External Auditor from a Panel of Independent Auditors, as listed by the Central Bank.

Messrs Ernst & Young have expressed their willingness to continue in office for the ensuing year and a resolution with regard to their reappointment and remuneration will be submitted for approval by the shareholders at the Annual General Meeting scheduled on 29th June 2022.

Auditors' remuneration consists of two types of fees, as follows:

- Audit service fees for the year under review and;
- Audit-related fees for non-audit services.

The Company paid following sums for audit and related services as well as non-audit services to M/s. Ernst & Young, Chartered Accounts. Agreed-Upon Procedures engagement to comply with the Finance Companies Direction No.03 of 2008 and Assurance engagement on Directors' Statement of Internal Control have been classified as audit related services and, the fees paid on the same during the year under review are included under audit and related services accordingly. Non audit services mainly comprised of the fees paid during the year under review on tax consultancy services, and payment for Accountants Report provided by auditors.

# REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

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	2022	2021
	LKR ('000)	LKR ('000)
Audit and Related Services	5,290.13	3,282.87
Non Audit Services	1,061.46	515.81

## COMPLIANCE WITH PRUDENTIAL REQUIREMENTS, REGULATIONS LAWS AND INTERNAL CONTROLS

The Company has not engaged in any activity contravening any laws and regulations. There have been no irregularities involving management or employees that could have material financial effect or otherwise resulting in non-compliance with prudential requirements, regulations, laws and internal controls. The Directors' Statement on Internal Control over Financial Reporting (page 174) confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The Company has obtained a certificate from the External Auditors on the effectiveness of the Internal Control mechanism (page 173).

Following table shows Compliance with Requirements on the Content of the Annual Report in Rules 7.6 and 9.3.2 of the Listing Rules

Rule Reference	Information required to be Disclosed	Status of Compliance	Page Reference
7.6 (i)	Names of person who were Directors of the Company during the Financial year	✓	146
7.6 (ii)	Principal activities of the Company during the year	✓	143
7.6 (iii)	Information on 20 largest shareholders at the end of the year	✓	67
7.6 (iv)	The public holding percentage	✓	66
7.6 (v)	Directors' and Chief Executive Officer's holding in shares	✓	67
7.6 (vi)	Information pertaining to material foreseeable risk factors	✓	68
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	There were no material issues pertaining to employees and industrial relations during the year under review	No material issues
7.6 (viii)	Information on buildings/land holdings and investment properties as at the end of the year	✓	216
7.6 (ix)	Number of shares representing the stated capital as at the end of the year	✓	65
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and related information	✓	66
7.6 (xi)	Ratios and market price information on equity, debt, change in credit rating	✓	253
7.6 (xii)	Significant changes in the Company's fixed assets.	✓	214
7.6 (xiii)	Details of funds raised through a public issue, rights issue and a private placement during the year	✓	68
7.6 (xiv)	Information in respect of employee share ownership or Stock option schemes	The Company does not have any employee share ownership or stock option scheme at present	N/A
7.6 (xv)	Disclosure pertaining to corporate governance practice in term of Rules 7.10.0, 7.10.5c. and 7.10.6c. of Section 7 of the Listing Rules	✓	140

Rule Reference	Information required to be Disclosed	Status of Compliance	Page Reference
7.6 (xvi)	Related Party Transaction exceeding 10% of the equity or 5% of the total assets of the entity	Repealed on 01 January 2016	N/A
9.3.2 (a)	Non-recurrent related party transactions exceeding 10% of equity or 5% of total assets, whichever is lower	There were no non-recurrent transactions that exceeded the threshold during the Financial year 2021/22	N/A
9.3.2 (b)	Recurrent related party transactions exceeding 10% of gross income		N/A

## GOING CONCERN

The Company's Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business in the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

## PREPARATIONS FOR ADOPTING NEW REGULATIONS

An alternative format has been used in presenting accounting policies to minimise the disclosure overload and clutter in the Financial Statements. These Financial Statements comply with the requirements of the Sri Lanka Accounting Standards - LKAS 1 on 'Presentation of Financial Statements' and with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 181 to 251. The significant changes to accounting policies adopted if any, in the preparation of the Financial Statements are given in Note 3.1 on pages 188.

## NOTICE OF MEETING

Notice convening the 12th Annual General Meeting of the Company is given on page 274.

## ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by section 168(1)(k) of the Companies Act No 07 of 2007 the Board of Directors hereby acknowledge the contents of this report.

For and on behalf of the Board of Directors of Sarvodaya Development Finance PLC.

Channa de Silva  
Chairman

Chamindha Rajakaruna  
Director

P W Corporate Secretarial (Pvt) Limited  
Company Secretaries

25th May 2022

# REPORT OF THE BOARD REMUNERATION AND NOMINATION COMMITTEE

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**Mr. Dammika Ganegama**  
Chairman – Board Remuneration and Nomination Committee

25th May 2022

## OBJECTIVES AND SCOPE

The Board Remuneration and Nomination Committee (BRNC) is established to ensure Board and Employee well-being, HR policies and best practices, Remuneration arrangements and healthy corporate governance to align strategic objectives of SDF. The BRNC focuses to make recommendations to the Board on all new Board appointments and ensure a transparent and a smooth "Hire to Retire" process to increase SDF brand to increase quality recruitment, retention of staff through employer engagement while complying with the statutory and regulatory requirements of CBSL and other governing bodies.

## THE ROLE AND RESPONSIBILITIES

The BRNC has following role and responsibilities.

- I. Recommend the Board on the Company's policy around Non-Executive Directors' remuneration and benefits
- II. Determine and finalize remuneration packages at hiring time and during performance appraisal cycles for all key management personal of SDF
- III. Interview and recommend employment or contract adjustments for key management hires on behalf of the Company
- IV. Determine the terms of any compensation package in the event of early termination of the contract of any Executive Director and make recommendations to the Board regarding the content to be included in the Annual Report on Directors remuneration
- V. Assist the Board in deciding and enhancing Human Resource Policies and ensure guidance to align with statutory and regulatory compliance
- VI. Approve Performance Goals for Key Management Personnel
- VII. Advise and guide on best practices and activities to ensure employee well-being, training and retention

The role and responsibilities of the BRNC has been extended with the role and responsibilities of the Board Nomination Committee (BNC) as the BNC was dissolved by the Board in FY 2018 with an intention of broad-basing the role of BRNC for effective functioning and greater value creation.

Accordingly, the following role and responsibilities of BNC has been amalgamated with BRNC; namely,

- I. Propose suitable Charter for the appointment and re-appointment of Directors to the Board and to act in accordance with such Charter in proposing appointments and re-appointments. Such Charter shall cover areas such as qualifications, competencies, independence, relationships which have potential to give rise to conflict vis-à-vis the business of the Company, etc.
- II. Consider making of any appointment or re-appointment to the Board
- III. Provide advice and recommendations to the Board or the Chairman (as the case may be) on any such appointment
- IV. Regularly review the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes (a member of the Nomination BRNC should not participate in decisions relating to his/her own appointment)
- V. Adopt a scheme of self-assessment to be undertaken by each Director annually
- VI. Designating Key Management Personnel
- VII. Ensure 'fit and proper' of Directors and Key Management Personnel
- VIII. Approve Key Management Personnel Succession Plan and periodically review selected successors for Key Positions

## COMPOSITION

The BRNC comprised four (4) Non-Executive Directors as at 31st March 2022 as mentioned below. The Chairman of the BRNC is an Independent, Non-Executive Director.

Name	Designation
Mr. Dammika Ganegama	Chairman/Non-Executive, Independent Director
Mr. Channa de Silva	Member/Non-Executive, Non Independent Director
Mr. Amrit CanagaRetna	Member/Non-Executive, Independent Director
Ms. Shehara De Silva	Member/Non-Executive, Independent Director

The Profiles of the BRNC members are set out on pages 28 to 31 of this Annual Report. Mrs. Asmi Amarasinghe, Head of HR, functions as the Secretary to the BRNC.

## MEETINGS

The BRNC meets regularly, at least four times a financial year. The Chief Executive Officer and the Head of HR participate at meetings of the BRNC by invitation. The Minutes of each BRNC meetings held are submitted to the Board for their information and decision making on the implementation of recommendations made by the BRNC.

The BRNC held three (3) meetings during the current year and the recommendations made by the BRNC were circulated and ratified by the Board of Directors.

	07/04/2021	27/08/2021	24/03/2022
Mr. Dammika Ganegama – Chairman	√	√	√
Mr. Channa de Silva – Member	√	√	√
Mr. Amrit CanagaRetna – Member	√	√	√
Ms. Shehara De Silva – Member	√	√	√

## GRI 2-19

### REMUNERATION POLICY

#### Reward strategy

The Committee oversees the reward strategy of the Company to ensure that the employees are rewarded based on their performance, skills, experiences and level of responsibility enabling the Company to retain the right people to deliver on the strategy.

Aligning with the principles of good overnance, our remuneration policy reinforces our desired culture and encourages behaviour consistent with our values while motivating the employees to deliver and sustain high levels of performance supporting achievement of our strategic Priorities.

## GRI 2-20

### REMUNERATION PACKAGE AND OTHER BENEFITS

The Committee reviews the remuneration package of the employees, taking into consideration the performance of the Company vs set KPIs, the Individuals at the management level, remuneration comparison with peer group companies, institutional guidelines and reports from specialist consultants at the industry level.

The employee well-being is addressed through benefits provided to employees including staff loan schemes, staff health insurance cover, critical illness cover and the personal accident cover.

## KEY POLICY MATTERS REVIEWED/INTRODUCED DURING THE REVIEW PERIOD

The BRNC continued providing visionary guidance and support to the Management team to realise agreed sustainable growth by introducing new HR policies/procedures, developing staff talent to align the entire workforce towards a performance-driven culture.

## THE BRNC REVIEWED/INTRODUCED THE FOLLOWING POLICY MATTERS DURING THE FY 2022.

- Upgraded existing Medical/Health Insurance policy with OPD Coverage
- Based on performance appraisal process, eligible employees were given Bonuses based on their performance.
- Seven new HR Policies introduced and implemented
- Continuous advocating and guidance on skills development, capacity building and succession planning.
- Continuous monitoring and highlighting the need for effective staffing, cost management, adoption to diversity guidelines, Transparency & fair policy and best practices within SDF.
- Closely monitor and suggest staff welfare and motivational programs.

The BRNC places much emphasis on training and encourages the provision of continuous training and exposure as a key strategic role of HR. This will enhance the existing skills of employees and expand their experience and knowledge. Training will also bring in new thinking and fresh ideas. Further, continuous training opportunities provided to employees will serve to motivate those employees. The BRNC is of the view that as SDF grows and diversifies, it will benefit from having employees who are multi skilled who can serve cross functionally and also work with a regional outlook.

Aggregate remuneration paid to Non-Executive Directors and Executive Directors is disclosed in note 43 to the financial statements on page 233 as per the requirements of section 10 (2) (e) of the Corporate Governance Direction No. 3 of 2008 and Amendments thereto.

# REPORT OF THE BOARD AUDIT COMMITTEE

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*Channa de Silva*

**Mr. Channa de Silva**  
Chairman - Board Audit Committee

25th May 2022

## CHARTER OF THE COMMITTEE

The Terms of Reference of the Board Audit Committee (BAC) are clearly defined in the Charter of the BAC which is periodically reviewed and revised with the concurrence of the Board of Directors. The process ensures that new development and concerns are adequately addressed. The BAC is responsible to the Board of Directors and reports on its activities regularly. The functions of the BAC are designed to assist the Board of Directors in its general oversight on financial reporting, internal and external audit and compliance with legal and regulatory requirements and risk management.

## THE ROLE AND RESPONSIBILITIES

The BAC is expected to ensure;

- The integrity of the financial reporting of the Company and the compliance with financial reporting requirements, information requirements of the Company's Act and other related financial reporting regulations.
- The effectiveness of the internal control system and the Company's Risk Management function
- The Company's ability to continue as a going concern in the foreseeable future
- Independence and effectiveness of the Company's External Auditors
- Performance of the Company's Internal Audit function
- The Company's compliance with legal and regulatory requirements including the performance of the Company's compliance function

## AUTHORITY

The BAC has the entire authority to investigate into any matter, including call any employee to be questioned at a meeting of the BAC, full access to information and authority to obtain external professional advice, at the Company's expense.

## COMPOSITION

Members of the BAC are appointed by the Board and Comprised entirely of Non-Executive Directors. The Chairman of the BAC shall be a Non-Executive Director who possesses adequate qualification and experience in accountancy and auditing. The BAC comprised of two Non-Executive Directors of the Company as at 31st March 2022, as shown below:

Name	Designation
Mr. Channa de Silva	Chairman / Non-Executive/Non-Independent Director
Mr. Amrit CanagaRetna	Member / Non - Executive Independent Director

The Profiles of the BAC members are set out from pages 28 to 31 of this Annual Report. Mr. Chandana Bandara, Head of Internal Audit, who is a qualified Fellow Chartered Accountant, functions as the secretary to the BAC.

No changes to the composition of BAC occurred during the period under review.

## MEETINGS

The attendance of the BAC members at the meetings during the financial year under review was as follows:

Name	No. of meetings applicable	No of meetings attended
Mr. Channa de Silva	06	06
Mr. Amrit CanagaRetna	06	06

On the invitation of the BAC, any officer of the Company, External Auditors and any outsider may attend all or part of any meeting. The proceedings of the BAC meetings are recorded with adequate details and reported to the Board of Directors.

## SUMMARY OF ACTIVITIES DURING THE YEAR

### Financial Reporting

The BAC reviewed the audited Financial Statements of the Company before submission to the Board, in order to monitor the integrity of the Financial Statements and the significant financial reporting judgments contained therein. In reviewing the audited Financial Statements, the BAC focuses particularly on:

- (i) Major judgmental areas,
- (ii) Any changes in accounting policies and practices,
- (iii) Significant adjustments arising from the audit,
- (iv) The going concern assumption, and;
- (v) The compliance with relevant accounting standards and other legal requirements.

The BAC also assessed the Company's compliance with financial reporting requirements, information requirements of the Companies Act, Finance Business Act and other relevant financial reporting related regulations and requirements.

## INTERNAL CONTROLS, RISK MANAGEMENT FUNCTION AND GOING CONCERN

The BAC keeps under review the Company's internal controls and risk management systems ensuring the procedures are adequate to meet the requirements of the Sri Lanka Auditing Standards.

The BAC also assesses the Company's ability to continue as a going concern in the foreseeable future. The BAC reviewed and approved the 'Directors' Statements on Internal Controls over Financial Reporting' to be included in the Annual Report.

## EXTERNAL AUDIT

The BAC monitors independence and objectivity of the audit processes of external audit in accordance with applicable standards of best practice. The BAC with the approval of the Board of Directors developed and implemented a policy for engagement of External Auditors to provide non-audit services to safeguard the Auditors' independence and objectivity.

The BAC met the External Auditors Messrs Ernst & Young during the year under review and provided the opportunity to discuss the issues, problems and reservations arising from audits including those matters that may need to be discussed in the absence of Key Management Personnel. The BAC also reviewed the External Auditors' Management Letter and management responses thereto.

The BAC recommended to the Board that Messrs Ernst & Young; Chartered Accountants be reappointed as External Auditors of the Company for the financial year ending 31st March 2022, subject to approval by the Shareholders at the next Annual General Meeting.

## INTERNAL AUDIT

The BAC reviewed the adequacy of the scope, functions and resources of the Internal Audit Department and satisfied itself that the Department has the necessary authority to carry out its work and monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system. The BAC ensured that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. The BAC also reviews and monitors Management's responsiveness to the significant audit findings and recommendations of the Internal Auditor. Internal Audit Department carried out 41 branch annual audits, 13 branch spot audits, 04 functional audits, 09 credit audits and 03 special audits during the year under review.

## OVERSIGHT ON REGULATORY COMPLIANCE

The BAC with the assistance of internal audit closely examined the compliance with mandatory statutory requirements and the systems and procedures in place to ensure compliance with such requirements.

## ETHICS AND GOOD GOVERNANCE

Highest standards of Corporate Governance and adherence to the Company's Code of Ethics are ensured. All appropriate procedures are in place to conduct independent investigations into incidents reported through whistle-blowing or identified through other means.

## WHISTLE-BLOWING AND FRAUD

Whistle Blower Policy that was implemented in year 2017 which was subsequently revised in year 2021 is intended to encourage and enable employees and others to raise serious concerns internally, so that Board of Directors and the Corporate Management can address and correct inappropriate conduct and actions.

In the event of whistle-blower is uncomfortable or reluctant to report his/her supervisor, then he/she could report the matter to the next higher level of Management including the BAC.

The whistle-blower policy guarantees the maintenance of strict confidentiality of the identity of the whistle-blowers. The policy is subject to regular review in order to further improve the effectiveness.

The BAC engaged the main Board in taking decisions related to matters implemented by the BAC. The main Board thereafter, is fully briefed and take part in making decisions in regards to certain key areas of Operations. I am glad to express that there were not any fraud committed by any employee detected during last financial year.

## CONCLUSION

The evaluation of reports and based on independent judgment, the BAC is satisfied about the financial reporting, internal control environment, compliance with statutory requirements, independence and effectiveness of External Auditors and performance of internal audits of the Company.

I take this opportunity to thank the External Auditors, Internal Audit Department and members of the BAC for their participation and contribution to the efforts of the BAC. Also appreciate the support of the Board of Directors in regard to all our activities at the BAC.

We believe that it was a year that we strengthened the organisation and moved forward as a financial institution in Sri Lanka.

# RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

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**Mr. Amrit CanagaRetna**  
Chairman - Related Party  
Transaction Review Committee  
25th May 2022

The primary purpose of the Committee is to evaluate and consider all transactions with related parties of the Company, in order to ensure that related parties are treated on par with other shareholders and constituents of the Company.

## COMPOSITION AND ATTENDANCE OF THE COMMITTEE

During the year under review, the Board Related Party Transactions Review Committee (the Committee) comprised of the following Independent Non-Executive Directors (in conformity with the requirements of the Code of Best Practice on Corporate Governance issued by CA Sri Lanka). Profiles of the members as at 31 March 2022, are indicated on pages 28 to 31.

Name of the Director	Director status	Attendance
Mr. Amrit Canagaretna Chairman	Non-Executive/ Independent	2/2
Mr. Channa De Silva	Non-Executive/ Independent	2/2
Mr. Sunil De Silva	Non-Executive/ Independent	2/2

## CHARTER OF THE COMMITTEE

The Related Party Transactions (RPT) Review Committee was established by the Board of Directors to assist the Board in reviewing all related party transactions carried out by the Company in terms of Section 9 of the CSE Listing rules which required mandatory compliance with effect from 1st January 2016.

## FUNCTIONS

### Scope of the Committee includes;

- Assessing whether the transactions are in the best interests of the Company and its shareholders as a whole
- Establishing guidelines to be followed by the employees of the Company in respect of ongoing RPTs
- Monitoring RPTs, if any, to ensure that they are conducted in a manner that will prevent or mitigate the impact of any conflict of interest which may arise between the Company and its Related Parties

- Advising the Board of Directors in making immediate market disclosures on applicable RPTs as required by Section 9.3.1 of the Listing Rules of the CSE
- Advising the Board of Directors in making appropriate disclosures on RPT in the Annual Report as required by Section 9.3.2 of the Listing Rules of the CSE

## METHODOLOGY

In accordance with the guiding principles, a self-declaration is obtained from each director and key management personnel (KMP) of the Company to identify persons related to the directors and key management personnel. Therefore, the Company adopts a disclosure-based approach when identifying related parties.

Based on the information provided in these declarations, the Company has established a process that enables the Company to generate related party transaction data across the Company's network.

If a member has a material personal interest in the matter under consideration, or if the RPT directly or indirectly involves a member of this committee, the conflicting member immediately informs the committee and excludes himself from the meeting, and the member was not present at the meeting during the matter considered and abstained from voting on the matter.

## ACTIVITIES IN 2021/22

- The Committee met two (02) times during the financial year ended 31st March 2022, and the proceedings of the Committee meetings have been regularly reported to the Board of Directors during the financial year.
- There were no non recurrent or recurrent RPT that exceeded the respective thresholds mentioned in the Listing Rules of the CSE.
- Reviewed all Related Party Transactions for two quarters and confirmed that such transactions occurred at arm's length price.

Details of other RPT's entered into by the Company during the above period are disclosed in Note 43 (Pages 233 to 234) to the Financial Statements.

## DECLARATION

The board of directors declares that the Company has no related party transactions within the scope of the listing rules in 2021/22, as set out in the annual report of the Board of Directors on the Affairs of the Company on pages 143 to 149.

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**Mr. Amrit CanagaRetna**  
Chairman - Board Integrated Risk  
Management Committee  
25th May 2022

**Sarvodaya Development Finance PLC firmly believes that risk management function is the core of the organization since SDF functions as a financial intermediary. A robust risk management system ensures the protection of depositors, investors and key stakeholder interest along with secured long term growth in the organization. The Board of Directors of Sarvodaya Development Finance PLC (SDF) is the apex body which reviews and monitors the risks of the Company.**

## CHARTER OF THE COMMITTEE

The Board Integrated Risk Management Committee (BIRMC) was established by the Board of Directors in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended). The composition and the scope of work of the Committee are in conformity with the provisions of the aforesaid Direction. The BIRMC charter clearly sets out the membership, source of authority, duties and the responsibilities of the BIRMC. The BIRMC assists the Board of Directors in ensuring the Company is financially viable and sustainable by regularly assessing a diverse range of risks faced by SDF in its business operations and assuring the adequacy and effectiveness of the risk management framework implemented by SDF.

## ROLES AND RESPONSIBILITIES

Duties of the BIRMC include identification of current and potential risks and determining the adequacy and effectiveness of risk mitigating measures used to ensure that the actual overall risk profile of the Company conforms to the desirable risk profile of the Company as defined by the Board of Directors.

## COMPOSITION

The BIRMC comprises of an Independent, Non-Executive Director who is the Chairman of the Committee, the CEO, Head of Risk, Compliance Officer and the Corporate Management Team who manage the risks of business units.

During the year under review, the BIRMC was comprised of following members.

Name	Designation
Mr. Amrit CanagaRetna	Chairman/Non- Executive, Independent Director
Mr.Sunil De Silva	Non- Executive, Independent Director

# REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Currently, the Head of Risk Management, functions as the secretary to the BIRMC.

The following changes to the composition of BIRMC occurred during the period under review.

## RETIREMENTS

During the year under review, Dr. Richard Vokes, the former member of the BIRMC retired from the SDF Board with effective from 19th April 2021.

## RESIGNATIONS

During the year under review, Mr. Sunil De Silva was resigned with effective from 01st of March 2022.

The Profile of the BIRMC Chairman is set out in page 30 of this Annual Report.

## COMMITTEE MEETINGS AND THE METHODOLOGY

Five (5) meetings were held during the year under review. The attendance of the Directors at the meetings for the year is as follows:

Name	No. of Meetings Held	No. of Meetings Attended
Mr. Amrit CanagaRetna	5	5
Mr.Sunil De Silva	5	5

All key risk areas such as Credit, Liquidity, Market, Capital Adequacy and Operations are assessed by the Committee on a regular basis through MIS reports and other reports that covers the risk profile of SDF. Apart from assisting the Board in performing its oversight in relation to both qualitative and quantitative risks, the Committee also ensures the adequacy, soundness and effectiveness of the risk management framework of the Company.

## RISK MANAGEMENT

The work of the Committee was supported by the Risk Management Department (RMD) headed by the Head of Risk. The RMD functions as an independent unit and the Head of Risk directly reports to the Chairman of the BIRMC.

## SUMMARY OF ACTIVITIES IN FY2021-22

Key areas addressed by the BIRMC during the year under review;

- Key focus was given on the deterioration of credit quality level of the industry and discussed the measures to be undertaken to improve credit quality.
- Improvements were recommended to ensure the completeness of security documentation.
- Reviewed the liquidity position, funding pipeline and liquidity management strategies of the Company.
- Assessed all risks, i.e., credit, market, liquidity, operational, legal and reputational and strategic risks of the Company
- Reviewed the implementation of risk management as well as compliance and control systems.

# INTEGRATED RISK MANAGEMENT REPORT

## RISK ENVIRONMENT FY 2021-22

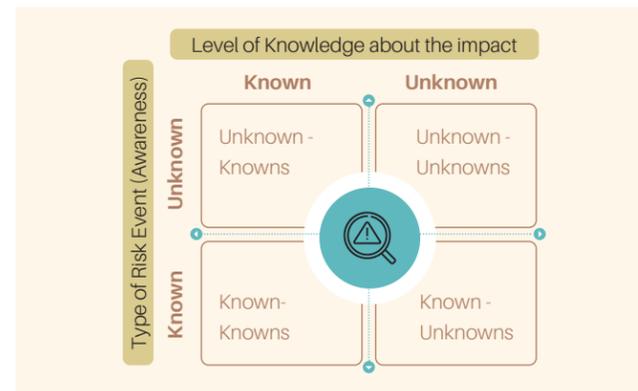
During the financial year 2021-22, complexity of the risk landscape continued to intensify, mainly due to COVID-19 pandemic-led disruptions and macro-economic stress stemming from dwindling foreign exchange reserves. Strict measures imposed by the Government to curb the 3rd wave of COVID-19, such as island-wide travel restrictions, quarantine curfews, isolation areas and island wide lockdowns, inevitably had an impact on the Company's operations. Being the first Development Finance Company, the ban on importing chemical fertilizers and pesticides, and other macro-economic developments such as fuel shortages, long hour power cuts and restrictions on imports, all due to inadequate foreign currency reserves, also had direct and indirect implications on the risk profile of the Company.

Refer Operating Environment Section on page 47 for more information

## THE RISK UNIVERSE

Being a Licensed Finance Company offering a wide range of financial services, risk is inherent in all our business activities and thereby SDF is prone to internal and external risk events. SDF's risk universe can be broadly categorized based on the level of knowledge about a risk event's occurrence (either known or unknown) and the level of knowledge about its impact (either known or unknown). This leads to four possibilities as follows.

### Four Quadrant of Risk Events Classification



## KNOWN RISKS

### Known-knowns (Tapped Knowledge)

These are risk events where both the risk and the impact from such risks are largely known by the Company. Credit default risk is an example for known-knowns risk and these types of risks should be closely monitored within the risk tolerance levels.

### Known-unknowns

These are the risk events which are known but the impact cannot be properly measured, or fully understood until the risk event has actually taken place. One of the best examples for this kind of risk events is cyber-attacks where Companies are aware of the threat but the impact from such an event is difficult to measure beforehand.

## UNKNOWN RISKS

### Unknown-unknowns (Unfathomable Uncertainty)

These types of risk events are called 'tail risks,' where both the awareness of the existence of such risk events and their impacts are unknown. Best example is the outbreak of the COVID-19 pandemic where the whole world was unaware of such a risk and the impact of it.

### Unknown-knowns (Untapped Knowledge)

Impact is known as such risk events were previously experienced by some other institution, but the Company is unaware on its existence or relevance. Scenario Analysis and Stress Testing can be used as tools to measure the impact relevant to the Company.

## RISK MANAGEMENT AT SDF

SDF had in place a comprehensive risk management system even prior to listing in the Colombo Stock Exchange, including a fully functional Board Integrated Risk Management Committee (BIRMC), a Board Audit Committee (BAC), a Board Credit Committee, an Assets and Liabilities Management Committee (ALCO), and management committees to oversee different spheres of risk management.

Following the IPO, which was oversubscribed, SDF exceeded the minimum capital adequacy requirement of LKR 2.5 Bn with a total capital of LKR 3.1 Bn. SDF has also invested in building internal capacity, including the recruitment of skilled and qualified personnel and upgrades to the core IT system, to support expansion of business. While our lending has surged following the IPO, it is noteworthy that around 90% of our total lending is asset backed lending, and that our gross NPL ratio of 8.93% is well below the industry average of 11%.

## Risk Management Strategy

SDF's Risk Management strategy is fundamentally based on maintaining adequate capital, liquidity and operational controls at all times, to safeguard the interests of all stakeholders. The level of risk across our business and uncertainties we face, are key areas of focus for the Board.

## PRIORITIES FOR FY 2022-23



- Comprehensive review of Key Risk Indicators (KRIs) for appropriateness
- Formulate a risk data base for the Company to strengthen the Enterprise wide Risk Management Framework
- Review the Risk Appetite Statement and Risk Management Policy for appropriateness and relevance
- Introduce Risk-Adjusted Return Scorecards for key product lines
- Broaden the scope of the stress testing framework
- Conduct a 100% reliability testing of the enhanced Disaster Recovery (DR) site
- Develop a Liquidity Crisis Management Plan to be followed during a deposit flight caused due to external factors and recommend minimum liquidity buffer to be maintained
- In depth analysis of the maturity profiles of liabilities (deposits and borrowings) to assess the accumulation of repayments in order to guide the liability sales function

## RISK GOVERNANCE STRUCTURE

The Company's Board of Directors is responsible for developing the overall risk strategy, including; supervision of the Risk Management Framework, approval of the overall Risk Management Policy and overseeing and challenging the risk levels to which the Company is exposed, while ensuring compliance with laws and regulations.

The overall adequacy and effectiveness of the Risk Management Framework is managed through the BIRMC, the BAC, which comprises Non-Executive Independent Directors, and the ALCO, which comprises senior level staff members in charge of key business functions. Acting within the authority delegated by the Board, these committees review specific risk areas and receive regular reports on risk management, internal controls, portfolio trends, policies, limits and standards.



# INTEGRATED RISK MANAGEMENT REPORT

Board Sub Committee	Role	Membership
Board Integrated Risk Management Committee (BIRMC)	BIRMC operates primarily as an oversight committee monitoring risk types, concentrating particularly on Credit, Liquidity, Capital, Operational, Strategic and Reputational risks and related issues.	Chaired by an Independent Non-Executive Director and comprises of the CEO and senior level staff. Details of the members are given in the Integrated Risk Management Committee Report on Page 156
Board Audit Committee (BAC)	BAC reviews the accounting policies and practices, controls and procedures established by Management for compliance with regulatory and financial reporting requirements.	Comprises of a Non-Executive Independent Director and a Non-Executive Director. Chairman of the Committee possesses qualifications and experience in accountancy and audit. Details of the members are given in the Audit Committee Report on Page 152.
Board Credit Committee (BCC)	BCC oversees the management of credit quality of the lending portfolio and recoveries actions.	Comprises of Non-Executive Directors and senior level staff. Chairman to the Committee is a Non-Executive Independent Director.
Management Committee	Role	Membership
Management Credit Committee (MCC)	MCC approves credit facilities within its delegated authority and reviews the methodologies for assessing credit risk and monitors concentration risk.	Comprises of senior level staff and headed by the CEO.
Assets and Liabilities Management Committee (ALCO)	ALCO is responsible for identifying, managing and controlling risks in executing the business strategy of the Company and mainly focuses on interest rate risk and liquidity risk while maintaining profitability .	Comprises senior level staff who are in charge of Finance, Risk, Credit, Fund Mobilisation, Recoveries, Marketing and Treasury. ALCO is headed by the CEO
Management Committee (MANCOM)	MANCOM oversees the overall strategy and the new developments in the risk environment to take timely precautions and corrective measures.	Comprises of senior level staff and headed by the CEO.

## RISK CULTURE

SDF recognises the importance of having a strong risk culture to support its efforts to create value for its stakeholders. In this regard, the Company focuses on multiple drivers to enhance the risk culture and emphasises the principle of best business practices in order to empower employees and give them the confidence to act responsibly and transparently in executing their day-to-day job functions.

The Company's Risk Management Department (RMD) takes the lead in the development and implementation of necessary policies and procedures to ensure the principles of risk management are incorporated into the day-to-day business activities. This is supported by the three-lines-of defence mechanism which facilitates building and maintaining a robust companywide risk culture and promoting a high level of risk awareness at all levels of the business.

## Three Lines of Defence Framework

First Line of Defence	Second Line of Defence	Third Line of Defence
Business lines/ Corporate Functions	Risk Management and Control Functions	Assurance Function
Ownership for the day-to-day management of risks	Direction for Risk Management and Compliance, facilitating high level of risk awareness throughout the organisation	Independent and objective assurance on the Risk Management processes and practices in place
<ul style="list-style-type: none"> <li>● CEO</li> <li>● Senior Management Team</li> <li>● Business Units</li> </ul>	<ul style="list-style-type: none"> <li>● BIRMC</li> <li>● ALCO</li> <li>● RMD</li> <li>● Compliance Department</li> </ul>	<ul style="list-style-type: none"> <li>● BAC</li> <li>● External Auditor</li> <li>● Internal Audit Department</li> </ul>

A culture of risk awareness and compliance is facilitated within the Company by the Risk Management and Compliance Departments through ongoing training of employees. Employees in specialised roles are required to gain specified levels of skills and experience relevant to their roles which encompass a thorough understanding of the risks relevant to these roles. This is vital to strengthen the first line of defence.

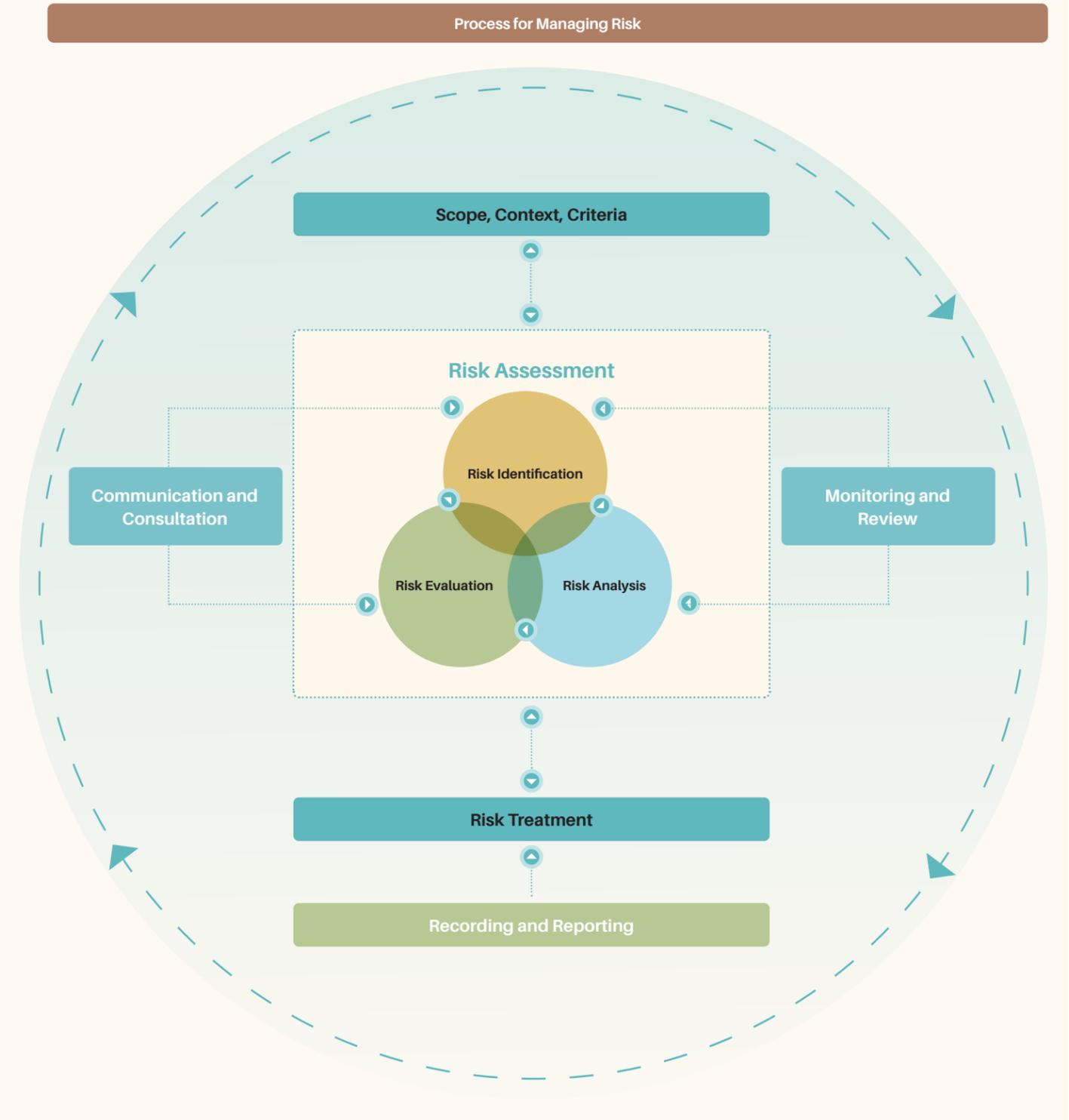
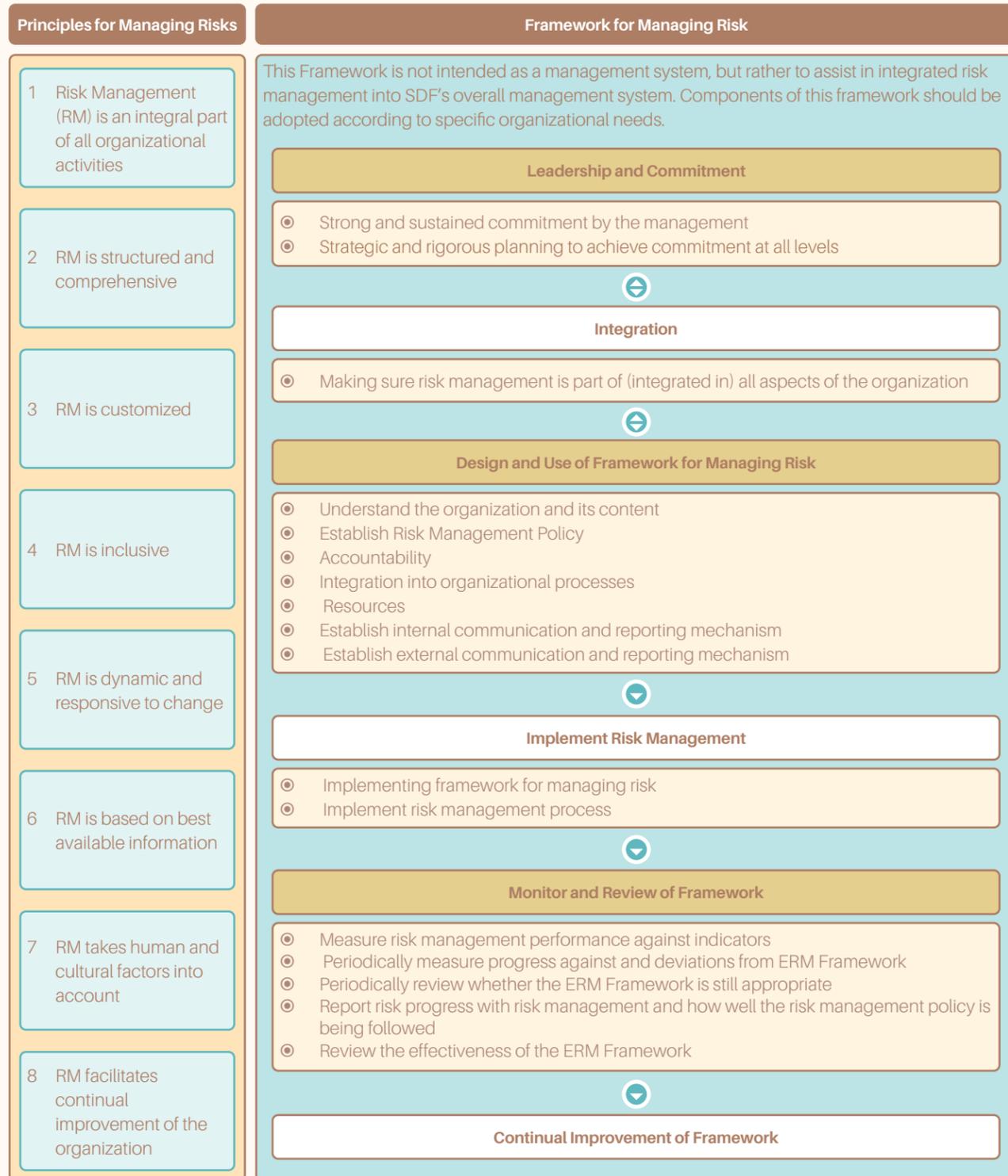
The Risk Management and Compliance Departments serves as the 2nd line of defence, implementing the Company's risk management framework and policies. Internal Audit Department functions as the 3rd line of defence, reviewing the effective functioning of internal controls set in place and providing feedback independently to the Board Audit Committee.

## RISK MONITORING AND REPORTING

An Enterprise Risk Management (ERM) Framework, backed by a strong risk culture, is in place to identify, assess, monitor and control risks within the Company. All material risks are monitored centrally by the Risk Management Department, with any significant irregularities promptly escalated to the Corporate Management, Board Integrated Risk Management Committee and the Board of Directors for review and necessary action.

Additionally, the Operational Risk Self-Assessment (ORSA) process was also introduced which has facilitated both management and staff to assume responsibility for internal controls. It also acts as a bottom-up feedback mechanism which supports proactivity in risk management.

## Enterprise Risk Management Framework



# INTEGRATED RISK MANAGEMENT REPORT

## MANAGING MATERIAL RISKS

A Snapshot of Our Material Risks - During the Financial Year 2021-22

Main Risk Category and Objective	Sub Risk Category	Risk Level 2021-22	Trend 2022-23
<b>Credit Risk</b> To maintain asset quality and a well-diversified portfolio	Default Risk	Medium	↕
	Concentration Risk	Low	↔
	Settlement Risk	Medium	↕
<b>Liquidity Risk</b> To ensure adequate funding for the business operations throughout market cycles, including periods of financial stress	Funding Liquidity Risk	Low	↕
	Market Liquidity Risk	Low	↔
<b>Market Risk</b> To safeguard against the adverse movements of market variables	Interest Rate Risk	Medium	↕
	Commodity Price Risk	Low	↔
	Foreign Exchange Risk	Low	↕
	Equity Price Risk	Low	↔
<b>Capital Management</b> To maintain sufficient capital buffer to absorb unexpected shocks		Low	↔
<b>Operational Risk</b> To streamline the operations while ensuring smooth and effective functioning		Low	↔
<b>Strategic Risk</b> To minimise risks that affect the achievement of the Company's business strategy and strategic objectives		Low	↔
<b>IT and Information Security Risk</b> To minimize cyber risks and data leakage to promote business continuity		Low	↔
<b>Legal/Regulatory Risk</b> To minimize cost of non-compliance and litigation		Low	↔
<b>Human Resources Risk</b> To retain and attract skilful and competent human resources to carryout business operations		Low	↔
<b>Reputational Risk</b> To safeguard the Company's brand value/goodwill		Low	↔

### CREDIT RISK

We define credit risk as the risk of losses arising because counterparties fail to meet all, or part, of their payment obligations to the Company. Credit Risk consists of two major components; Default Risk and Credit Concentration Risk, which together represent the most material risk for any financial institution.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. A well-defined hierarchy of delegated approval, supported by high ethical standards and well established policies and procedures provide a robust framework for the management of credit risk.

Major credit exposures to individual counterparties, groups of counterparties and product categories are reviewed and approved by the designated officers under the delegated approving limits set by the Board. The Board approves changes to the delegated authority levels pertaining to credit as considered necessary.

The risk of loss due to the concentration of credit risk to a specific product, asset class, sector or counterparty is monitored regularly. Credit concentration risk is managed within limits set for counterparty or groups of connected counterparties, asset type, industry sectors, etc. Credit concentrations are monitored by BIRMC and ALCO in each of the product type and such limits as material to the company are reviewed accordingly.

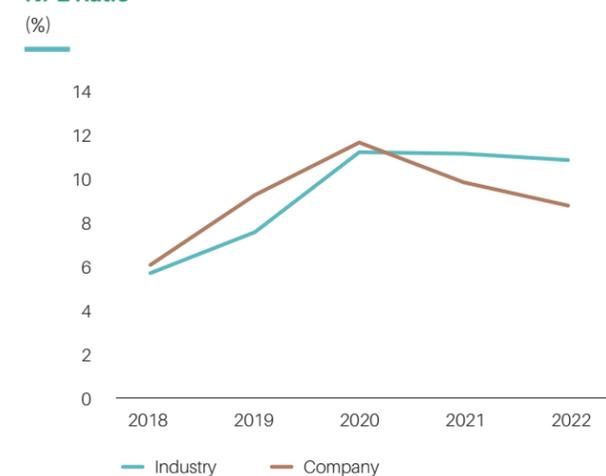
Key controls used are;

- Credit Policy that serves as the foundation for prudent lending
- Comprehensive due diligence and customer screening procedures at the pre-credit evaluation stage, including borrower rating for all obligors
- Independent review by the Risk Management Department for individual/group exposures in excess of Rs. 3 Mn
- A clear segregation of duties between loan origination, pre-credit evaluation and administration
- Effective identification of Early Warning Signals and Watch Listing procedure

We regularly monitor credit exposures, portfolio performance and external trends which may impact risk management outcomes. Internal management reports are presented to various committees, containing information on key industry and economic trends.

### TREND ANALYSIS - CREDIT DEFAULT RISK

#### NPL Ratio (%)

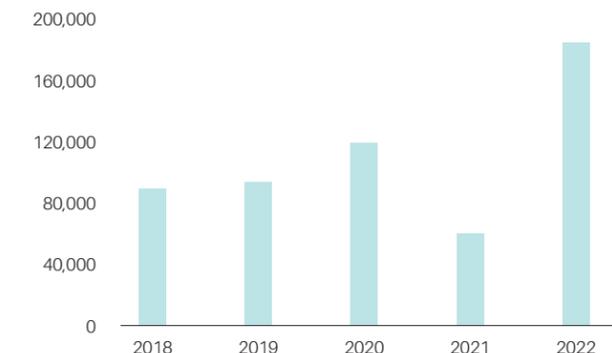


Industry\* (LFCs and SLCs) represents data as at 31st December 2021  
Source - CBSL

The Company was able to maintain its gross NPL ratio at 8.93% which is below the industry average of 11% reflecting the effectiveness of strengthened credit processes and the conservative risk profile.

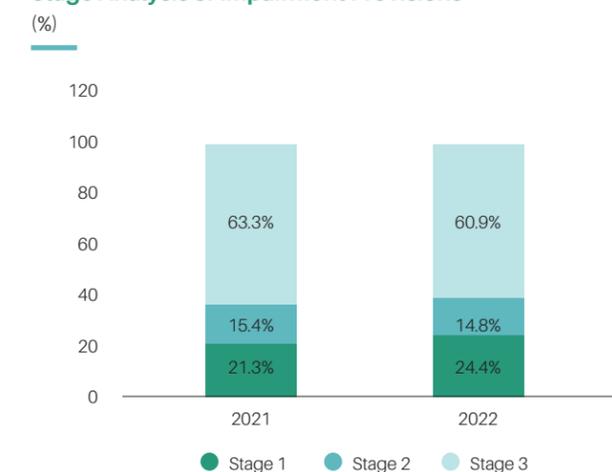
### Impairment Charge

(Rs.'000)



During the year under review, the impairment charge was increased due to the revision of parameters of the impairment model to reflect the country's economic situation.

### Stage Analysis of Impairment Provisions (%)



Stage 3 composition has come down during the year under review, reflecting the SDF's effort in strengthening its recoveries.

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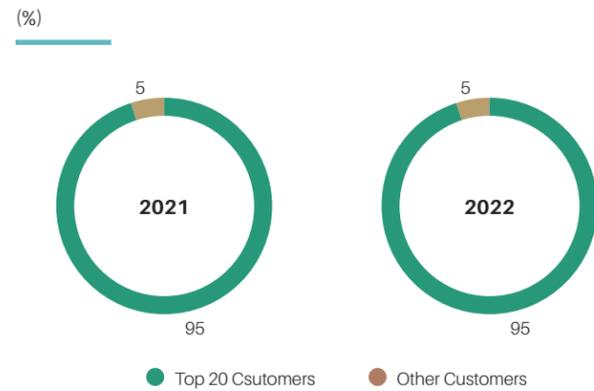
## Main Types of Collaterals (%)



Out of the total loan book, 87.7% is backed by either physical or financial collaterals as at 31st March 2022.

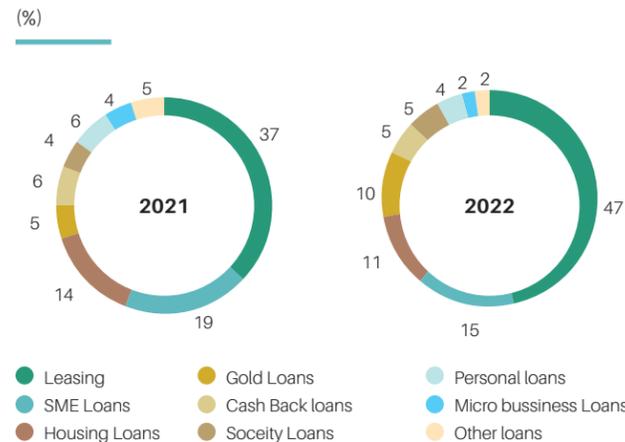
## TREND ANALYSIS - CREDIT CONCENTRATION RISK

### Credit Exposure to Top 20 Customers (%)



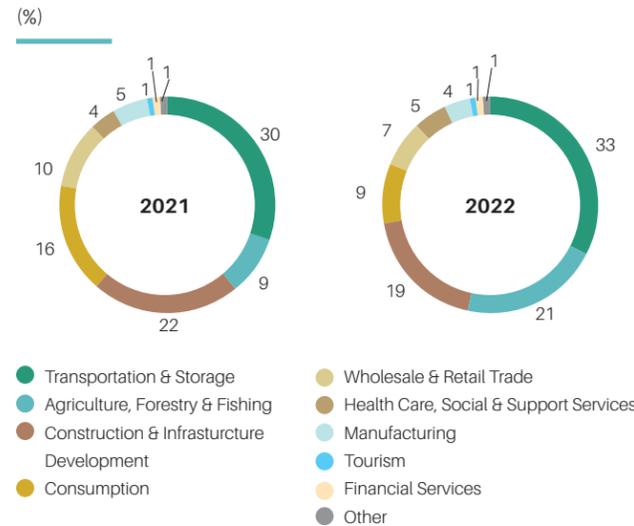
During the year under review, the Company has adopted a conservative risk approach and SDF did not encourage large loan facilities and as a result, there is no significant change in the top 20 borrowers' exposure.

### Product wise Concentration (%)



During the year under review, concentration on agro equipment, machinery and vehicle leasing, Gold Loans and Society Loans have increased.

## Industry Concentration (%)

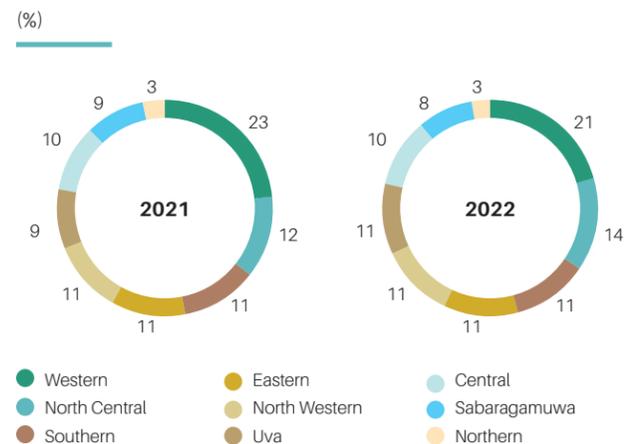


In terms of industry wise concentration, the Agriculture, Forestry and Fishing sector has significantly increased. In order to mitigate the risk associated with the agricultural sector stemming from climate changes, SDF has registered under the Agricultural and Agrarian Insurance Board, thus reducing the impact of catastrophic production losses.

## PROVINCE WISE CONCENTRATION

SDF operations are deployed across all provinces, encompassing the entire country.

### Provincial wise Concentration (%)



SDF has maintained a well-diversified portfolio spread across the country. The Western Province has the highest concentration

in terms of geographical concentration, but its contribution has declined due to disruptions to economic activities during the year.

## LIQUIDITY RISK

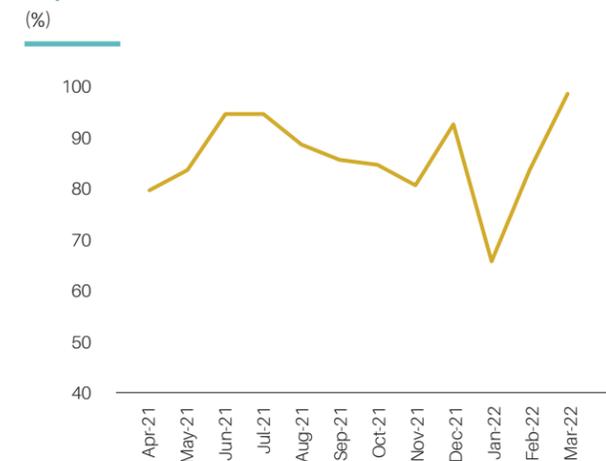
The risk that the Company is unable to meet its contractual or contingent obligations, or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets is defined as the liquidity risk. Liquidity and funding risk is the possibility that the Company does not have sufficient financial resources or stable sources of funding in the medium or long term, to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

This is carefully managed by the Assets and Liability Committee (ALCO). ALCO is the monitoring body responsible for overseeing our liquidity management policies. The Treasury Department receives direction from ALCO and is responsible for managing liquidity limits. Liquidity risk is a standard agenda item at our ALCO meetings.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective, the Company regularly monitors the liquidity position and maintains an adequate buffer of liquid assets. The Company also maintains access to diverse funding sources to meet unforeseen liquidity requirements.

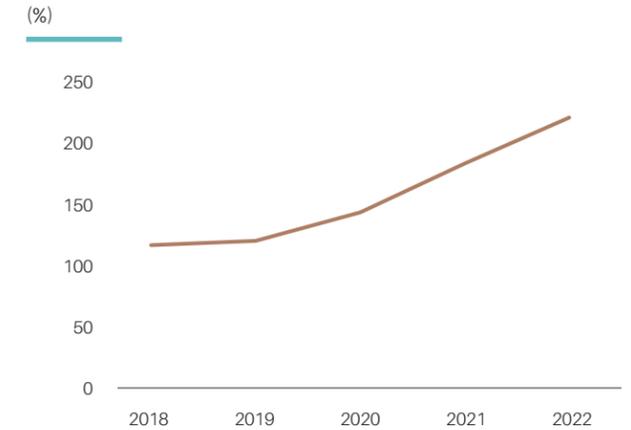
## TREND ANALYSIS - LIQUIDITY RISK

### Deposit Renewal Ratio (%)



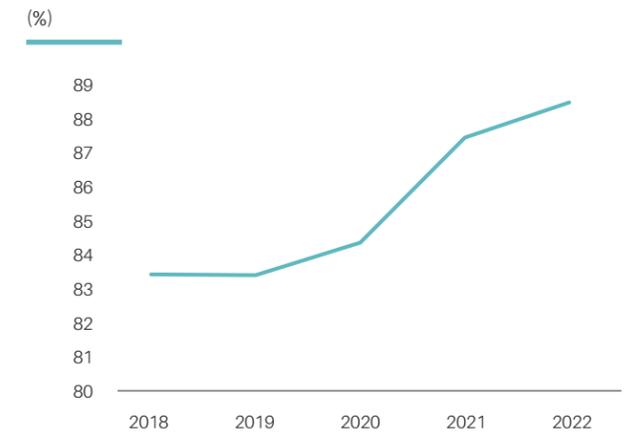
Except in January 2022, the renewal ratio was maintained above 75%, despite the economic shocks engulfing the country.

## Loans to Deposits Ratio (%)



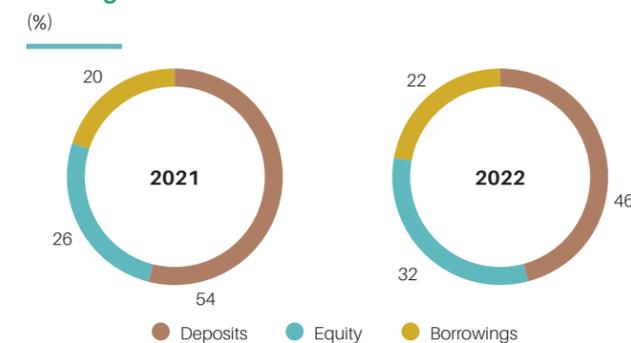
SDF's loan book is predominately financed through deposits placed by the customers. The Loans to Deposits ratio is over 100%, indicating that the Company is utilising the deposits to transform them into interest earning assets at optimal level.

## Net Loans to Total Assets Ratio (%)



SDF has been able to grow its loan book by 25% during the year under review.

## Funding Mix (%)



Following the IPO last November, SDF's equity share in the funding mix has increased from 25.8% to 32.2%.

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## CAPITAL MANAGEMENT

Capital risk is the risk of the Company having insufficient capital resources to meet minimum regulatory requirements and to support the credit rating, growth and strategic direction of the Company. BIRMC monitors the capital position and the capital management activities undertaken by the Company.

Capital Adequacy Ratio (CAR) is a key indicator which measures the financial strength of a finance company. This ratio is used as an indicator to protect depositors and promote the stability and efficiency of the financial system. A higher capital adequacy ratio indicates that the Company can handle losses and fulfil its obligations to account holders without ceasing operations.

Components of Capital	01-07-18	01-07-19	01-07-20	01-07-21	01-07-22
Tier I Capital	6.00%	6.50%	6.50%	7.00%	8.50%
Total Capital	10.00%	10.50%	10.50%	11.00%	12.50%

	01-01-18	01-01-19	01-01-20	01-01-21	01-01-22
Unimpaired Core Capital Requirement	1Bn	1.5Bn	1.5Bn	2.0Bn	2.5Bn

Capital Adequacy position was as follows;

Category	Mar-21	Mar-22
Risk Weighted Assets	9,262,592	11,071,180
Total Capital Base	2,019,232	3,367,770
Tier I Capital Ratio (Minimum requirement- 7%)	21.58%	29.17%
Tier II Capital Ratio (Minimum requirement- 11%)	21.80%	30.42%

## MARKET RISK

Market risk can be defined as the possible losses to the Company which are associated with adverse movements in market variables. Assessment of market risk is based on the volatility of the market parameters such as interest rates, stock prices, Forex rates and commodity prices.

### Interest Rate Risk

Interest rate risk is the risk of declining earnings (profitability) due to the movement of interest rates. Impact on the Company's Net Interest Income due to fluctuations in market interest rates is closely monitored. The Company uses the interest rate sensitivity of its assets and liabilities for modelling the financial impact. The table below illustrates the impact on Net Interest Income from different interest rate scenarios.

### Stress Test on NII from Parallel Interest Rate Shocks

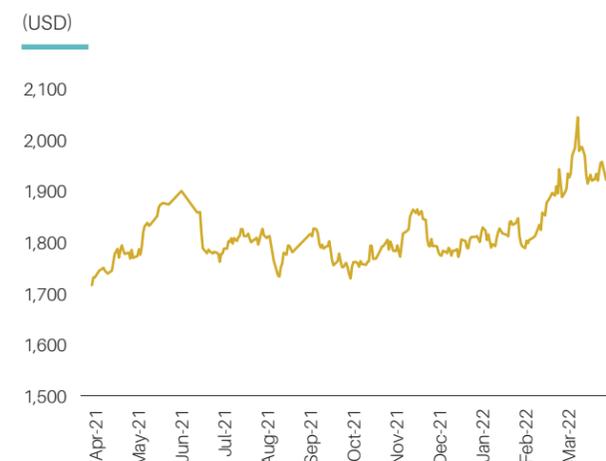
Annual impact on NII	2022		2021	
	Parallel Increase	Parallel Decrease	Parallel Increase	Parallel Decrease
1%	(15)	15	(21)	21
2%	(30)	30	(42)	42
3%	(45)	45	(62)	62

### Commodity Price Risk

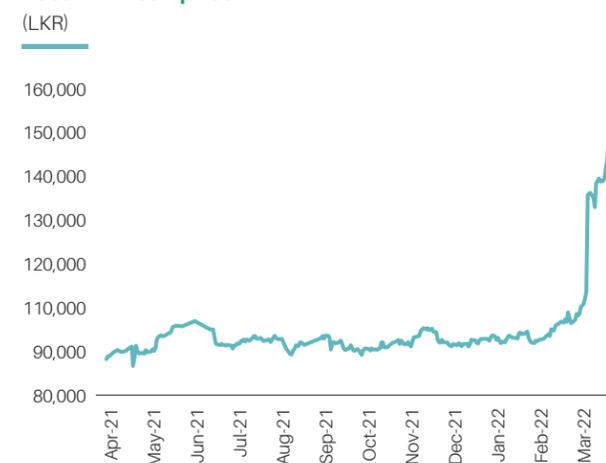
In the context of SDF, the price of global gold prices can impact our gold loans. The Company is managing healthy safety margin levels and Loan-To-Value (LTV) ratios, to mitigate this risk.

## Trend Analysis - Gold Market Price Movements

### Global Gold Price Movement



### Local 24K Suv price



### Foreign Exchange Risk

The risk of loss due to unfavourable significant movements in the local currency (LKR) against other currencies. Even though the Company does not have exposure to foreign currency borrowing under the year under view, it has an indirect impact on the local gold prices. However, this is also at a very minimum level due to restrictions on gold imports that prevailed during the year.

### Equity Price Risk

The potential loss due to adverse movements in share prices of investments. Company is not exposed to Equity Price Risk as it has not invested in the share market.

## OPERATIONAL RISK

Operational Risk arises due to the disruptions, breakdown of systems, failed or incomplete processes, people related issues and external events that could have an impact on the Company's performance and future prospects.

SDF seeks to minimise exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

Some of the key controls related to operational risk management are;

- Operational Risk Management Policy
- Internal Policies, Procedures, along with MOUs, Service Level Agreements and Non-Disclosure Agreements to effectively manage relationships with external service providers
- Internal IT controls
- Operational Risk Self-Assessment (ORSA) Declaration

All business units are responsible for setting and maintaining standards for operational risk management. Possible losses to the company's assets due to unforeseen events have been covered with comprehensive insurance policies.

## STRATEGIC RISK

Strategic Risks can be defined as risks that affect, or are created by the Company's business strategy and strategic objectives. Strategic Risks are created internally as well as externally. The failure to take action where needed, to address challenges, or make timely changes in response to macroeconomic trends also constitute strategic risk. The Company continuously follows developments taking place in the business environment and adjusts its strategies to optimise the opportunities available, whilst attempting to manage risks associated with such strategies. Business strategies are adopted after evaluating the overall risks associated with such strategies. A comprehensive strategic plan for the next five years is in place with quantitative indicators which are monitored continuously.

Key controls which are in place are;

- Budgeting Process
- Strategic Planning Process
- Environmental Scan through PESTLE Analysis and SWOT Analysis

# INTEGRATED RISK MANAGEMENT REPORT

## IT AND INFORMATION SECURITY RISK

In today's rapidly digitising environment, it is imperative that Information Security and affiliated risks are identified and mitigated. This, in-turn, will reduce several attack vectors (by malicious users), the risk of service unavailability and exposure of important information (which could lead to the loss of customer confidence). Some of these risks are indicated below (at a high-level);

- Cyber attacks
- Sensitive data leakages
- System(s) downtime
- Insufficient and ineffective IT infrastructure
- Frauds and malpractices
- Malware

As an institution which provides financial solutions to a diverse clientele, SDF appreciates the importance of Information Security to meet its business objectives and for providing "best-in-class" services to its business, in a secure manner. SDF closely follow the "C.I.A Triad Methodology" and believe that all facets of Information Security will be encompassed within these three domains, of Confidentiality, Integrity and Availability. Sufficient controls, procedures, infrastructure and best-practices need to be implemented in these domains so as to make it effective and efficient).

**Confidentiality** ensures data is kept secret or private. To accomplish this, access to information through any of Company's systems is controlled, in order to prevent the unauthorised use of data / sharing of data — whether intentional, or accidental.

**Integrity** involves making sure Company's data is trustworthy and free from tampering and is only maintained if the data is authentic, accurate, and reliable. Even if the Company's data is kept confidential and its integrity maintained, it is often useless unless it is **A**ailable to authorised staff who work at SDF as well as the customers it serves. This means that systems, networks, and infrastructure must be functioning as intended and are closely monitored.

To further ascertain the effectiveness of SDF's Information Security initiatives, the Company has conducted a VAPT ("Vulnerability Assessments and Penetration Testing"), coupled with SRA ("System Reviews / Audits") whose findings and rectifications are closely monitored by several stakeholders / Committees. Information Security is an ever-evolving area and constantly requires monitoring and assessments to cater to the multitude of threats which emanate from the Internet (and the Dark Web). This is especially true in the recent past with the emergence of ransomware, which has crippled organisations locally and globally.

SDF is introducing more initiatives to further strengthen the Information Security. As an organisation, SDF will continue

to provide dynamic and versatile financial solutions to its customers (with the use of technology wherever and whenever possible). These will only be introduced after stringent security assessments, in order to ensure that the Company keeps upholding the C.I.A Triad Methodology.

## HUMAN RESOURCES RISK

Employees play a pivotal role in determining the success of a company. HR risk management focuses on the specific risks employees pose to the business. This could involve risks around improper employee management, employee behaviour, or the way the Company hire and lose employees.

SDF identifies its Human Resources as a key asset of the Company and following are few measures taken by the Company to mitigate HR risks.

- Conducting various programs to enhance employee engagement
- Promote employee work stress managing activities to enhance efficiency and effectiveness
- Identifying gaps in the skill level and provide required trainings to enhance the capability of the staff
- Closely monitors the employee turnover ratios
- Succession planning is carried out by identifying the potential staff to strengthen the second line
- Conducting stay interviews to understand why employees stay and what might cause them to leave
- Identifying the causes of resignations via exit interviews and taking insights for further improvements

 Refer Human Capital report on page 76 for more information

## REPUTATIONAL RISK

Reputational risk is any sort of threat that can damage the good standing of the business and negatively impact the Company's reputation with customers and overall business success. Reputational risk can arise as an outcome of previously mentioned risk or combination of few risks. Popularity of social media has made reputational risk scenarios even more sensitive for businesses as they can swiftly reach a wider community of stakeholders at the same time.

SDF closely monitors the possible risks events which can harm its reputation and take proactive and corrective measures promptly. Continuous trainings are being conducted for the employees on business ethics, values and professional behaviour to mitigate instances which will lead to reputational risks. Customer complaints are given a high priority and are resolving with due care and also SDF actively involved in community development through its community integration strategy.

 Refer Social and Relationship Capital section on page 83 for more information

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The responsibility of the Directors, in relation to Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Independent Auditors' Report from page 178 to 180 of this Annual Report.

As per the Sections 148(1), 150(1) and 151 of the Companies Act No. 07 of 2007, Directors of the Company have responsibility for ensuring that the Company keeps proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the state of affairs of the Company as at the Statement of Financial Position date and of the profit or loss for the year and place the same before the Annual General Meeting.

The Directors consider that the Financial Statements of the Company for the year ended 31st March 2022, exhibited from pages 181 to 251 in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the Sri Lanka Accounting Standards (SLFRSs/LKASs), the Companies Act No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the listing rules of Colombo Stock Exchange, the Finance Business Act No. 42 of 2011 and the relevant Directions, Guidelines etc., issued by the Central Bank of Sri Lanka for Licensed Finance Companies. The Directors also ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records, which disclose the financial position of the Company with reasonable accuracy and enable them to ensure that the Financial Statements have been prepared as aforesaid. Further, the Directors have responsibility to ensure that the Company maintains adequate general supervision, control and administration of the affairs of the business to safeguard the assets of the Company and to prevent and detect frauds and other irregularities. The Directors have instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year and it has been under regular review of the Board of Directors. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the business in an orderly manner. The Directors are satisfied that proper accounting records have been maintained with proper internal controls being set up to prevent and detect frauds and irregularities in the Company operation to safeguard the assets of the Company.

The Directors are required to prepare the Financial Statements and to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their audit opinion. To the best of the knowledge and belief of the Directors, the Company's Auditor Messrs Ernst & Young, have carried out reviews and sample checks on the system of internal controls as they consider appropriate and necessary for expressing their opinion on the Financial Statements.

The Directors have provided the Auditor with all the financial records, related data and minutes of shareholders' and Directors' meetings and given them every opportunity to carry out and reviews and tests that they consider appropriate and necessary for the performance of their responsibilities. Messrs Ernst & Young has examined the Financial Statements made available together with all other financial records, minutes of shareholders' and Directors' meetings and related information and have expressed their opinion which appears from pages 178 to 180 of this Annual Report.

## COMPLIANCE REPORT

The Directors confirm, the Company has complied with the requirement of Section 151(1) of the Companies Act No. 07 of 2007, and the Financial Statements of the Company give a true and fair view of;

- The state of affairs of the Company as at 31st March 2022 and;
- The profit or loss of the Company for the financial year then ended.

The Directors also confirm, the Company has complied with the requirement of Section 148(1) of the Companies Act No. 07 of 2007, and that the Company has kept accounting records which correctly record and explain the Company's transactions, and at any time enabled;

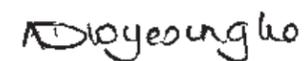
- The financial positions of the Company to be determined with reasonable accuracy,
- The Directors to prepare Financial Statements in accordance with the Companies Act No.7 of 2007, and;
- The Financial Statements of the Company to be readily and properly audited.

The Directors to the best of their knowledge and belief, are satisfied that all taxes, statutory dues and levies payable by the Company as at the Statement of Financial Position date relating to employees and the Government and other statutory bodies, have been paid or, where relevant, provided for.

The Financial Statements of the Company have been certified by the Chief Executive Officer and the Head of Finance, as the officers responsible for their preparation as required by the Section 150(1)(b) and they have also signed by two Directors of the Company as required by Section 150(1)(c) of the Companies Act No.7 of 2007.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board,



**P W Corporate Secretarial (Pvt) Limited**  
*Company Secretaries*

25th May 2022

# CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

About Us  
Leadership  
Strategy Review  
Management Discussion & Analysis  
Governance and Risk Management  
Financial Reports  
Supplementary Information

The Financial Statements of Sarvodaya Development Finance PLC (the Company) as at 31st March 2022 are prepared and presented in conformity with the requirements of the followings;

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (SLFRSs/LKSS)
- Companies Act No. 07 of 2007 and amendments thereto
- Sri Lanka Accounting and Auditing Standards Act no. 15 of 1995
- Directions issued to Licensed Finance Companies by Central Bank under the Finance Business Act No. 42 of 2011
- Listing rules of the Colombo Stock Exchange and
- Code of best practice on Corporate Governance issued by CA Sri Lanka

The Company on a quarterly basis presents Interim Financial Statements to its shareholders in compliance with listing rules of the Colombo Stock Exchange.

The Significant Accounting Policies have been constantly applied by the Company. Application of Significant Accounting Policies and Estimates that involve a high degree of judgement and complexity were discussed with the Board Audit Committee and the Company's External Auditors. Comparative information has been reclassified where applicable to comply with the current presentation and material departures, if any, have been disclosed and explained.

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and Estimates and other financial information included in this Annual Report fairly present in all material respects the financial condition, results of the operations and the Cash Flows of the Company during the year under review. We also confirm that the Company has adequate resources to continue in operation and have applied the Going Concern basis in preparing these Financial Statements.

The Board of Directors and the Management of the Company accept responsibility for establishing, implementing and managing Internal Controls and Procedures within the Company. We confirm based on our evaluations that the estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis in order to ensure that the Financial Statements are reflected in a true and fair manner, the form and substance of transactions and the Company's state of affairs is reasonably presented. To ensure this, we have taken proper and sufficient care in implementing effective Internal Controls and Procedures for ensuring that material information relating to the Company are made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. We have evaluated the Internal Controls and Procedures of the Company for the financial year under review and are satisfied that there were no significant deficiencies and weaknesses in the design or the operation of Internal Controls and Procedures to the best of our knowledge. The Company's Internal Audit Department conducts periodic reviews to

provide reasonable assurance that the established policies and the procedures of the Company were consistently followed.

The Company's Board Audit Committee, internally, reviewed all the internal and external audit and inspection programs, the efficiency of Internal Control Systems and Procedures and also reviewed the quality of Significant Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the 'Board Audit Committee Report' from pages 152 to 153 of this Annual Report. The Board Audit Committee meets periodically with the internal audit team and the independent external auditor to view their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the external auditor and the internal auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of Internal Controls and Procedures.

The Financial Statements of the Company were audited by Messrs Ernst & Young, Chartered Accountants and their Report is given from pages 178 to 180 of this Annual Report. The Board Audit Committee pre-approves the audit and non-audit services provided by Messrs Ernst & Young in order to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka on permitted non-audit services or impair Ernst & Young's independence and objectivity.

We confirm to the best of our knowledge that;

- The Company has complied with all applicable laws, regulations and prudential requirements;
- There are no material non-compliances other than those disclosed on page 97 to 142 the Corporate Governance of this Annual Report;
- There are no material litigations that are pending against the Company other than those disclosed in the note 38 on page 230 to the Financial Statements of this Annual Report, and;
- All taxes, duties, levies and all statutory payments by the Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company as at the reporting date have been paid, or where relevant provided for.



**Asanka Nawarathna**  
Head of Finance

25th May 2022



**Nilantha Jayanetti**  
Chief Executive Officer

# INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF SARVODAYA DEVELOPMENT FINANCE PLC



Building a better  
working world

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PNS/WDPL/PR

## INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF SARVODAYA DEVELOPMENT FINANCE PLC

### Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Sarvodaya Development Finance PLC ("the Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 March 2022.

### Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

### Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Our responsibilities and compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuru FCA FCMA LLB (London), Ms. A A Ludowyke FCA FCMA, Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeevani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: G B Goudian ACA, Ms. P S Paranavitane ACA LLB (Colombo), T P M Ruberu FCMA FCCA

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This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

### Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.



31 May 2022  
Colombo

# DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

This statement is issued in compliance with Section 10 (2) (b) of the Central Bank's Direction No. 03 of 2008 to licensed finance companies, which requires the Board to include in its Annual Report a statement on the Company's internal control over financial reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place in the Company. Recognising its responsibility in maintaining the safety and soundness of the Company and safeguarding its assets and resources, the Board has instituted an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and the process includes the system of internal control over financial reporting. The Board confirms that apart from regularly reviewing this process, it has also instituted systems and procedures which comply with relevant laws and regulations to keep abreast of industry norms. The Board also affirms that the Company's internal control mechanism has been designed to provide reasonable assurance with regard to the reliability of financial reporting and that the preparation of Financial Statements has been carried out according to the Sri Lanka Accounting Standards (SLFRSs/LKASs), which were first adopted by the Company in 2012.

Among the internal control procedures embedded within the Company are:

- An Integrated Risk Management (IRM) structure that involves the Board of Directors, Key Management Personnel, Heads of Divisions and the island-wide service network.
- A specialised Risk Management Unit tasked with assessing all types of risks associated with the Company and communicating the management and the Board the prompt actions required to mitigate the effects of such risks.
- The Internal Audit Division tasked with assessing the soundness of Company's internal control system and risk management functions and the ongoing evaluation of how the organisation has adapted to changes in the risk environment.
- Management Level Committees such as the Asset and Liability Committee (ALCO), Management Audit Committee (MAC), the Management Committee (ManCom), Management Credit Committee (MCC) and the Product Development Committee (PDC) tasked with specific duties and responsibilities to implement the strategic actions and driving the Company towards its strategic direction while taking timely actions to mitigate the effects of any risks that are arising.

- Board Level Oversight Committees such as the Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) tasked with specific duties and responsibilities for reviewing and improving the effectiveness of systems, processes and procedures in place to mitigate risks.
- Continuous upgrading to the information system ('e-finance') and operationalizing same for enhanced screening and performance of the work-flow-management system for processing and approving loans and services to the customers and information generation for MIS and financial reporting to keep track of all financial operations real time and generate reports online to enhance service quality and integrity of financial reporting.

The internal control system ensures, among others; transparency, segregation of duties, clear management reporting lines and adequate operating procedures in Head Office as well as in its service network of 51 branches.

#### CONFIRMATION

The Board is of the opinion that while it has complied with the aforementioned directives, it can provide a reasonable assurance against material misstatements, fraud and/or malpractice. The Board is also of the opinion while it has established the aforementioned internal control procedures, the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes and has been done in accordance with the Sri Lanka Accounting Standards and the regulatory requirements of the Central Bank of Sri Lanka.

#### EXTERNAL AUDITORS' CERTIFICATION

The External Auditors have submitted an Independent Assurance Report on the process adopted by the Directors on the system of internal controls over financial reporting. The External Auditors' Report is disclosed on page 178 to 180.

By order of the Board,



**Channa de Silva**  
Chairman / Chairman, Board Audit Committee

25th May 2022

## FINANCIAL CALENDAR

		2021/22	2022/23
Interim Financial Statements publication	Q1 ended 30 June	Note 1	Before 15 August 2022
	Q2 ended/ending 30 September	Note 1	Before 15 November 2022
	Q3 ended/ending 31 December	2nd February 2022	Before 15 February 2023
	Q4 ended/ending 31 March	30 May 2022	Before 30 May 2023
Financial statements publication	Six months ended 30 September 2021	Note 2	
	Year ended 31 March 2022	29 June 2022	
	Six months ending 30 September 2022		Before 31 December 2022
	Year ending 31 March 2023		Before 30 June 2023
Annual Report Publication	Annual Report and Accounts signed/to be signed	On 25 May 2022	In May 2023
	Publication of Annual Report	June 2022	June 2023
Annual General Meeting	Publication of Annual Report	11th Annual General Meeting on 29 June 2022	12th Annual General Meeting on or before 30 June 2023
Dividend Payment	Interim Dividend for the financial year	26 May 2022	In the 4th Quarter of 2023
	Final Dividend for the financial year to be proposed	29 June 2022	In June 2023

Note 1 – SDF listed in the Colombo Stock Exchange on 15 December 2021 therefore SDF has not submitted Interim Financial Statements for quarters ended 30 June 2021 and 30 September 2021.

Note 2 – SDF has not published half yearly financial Statements in reputed new papers as the Company listed in December 2021.

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# INDEPENDENT AUDITORS' REPORT



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### INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SARVODAYA DEVELOPMENT FINANCE PLC

#### Report on the audit of the financial statements

#### OPINION

We have audited the financial statements of Sarvodaya Development Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our

description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment allowances on loan and Lease receivables to customers:</b></p> <p>As at 31 March 2022, Loan and Lease receivables to customers, net of impairment allowances amounted to LKR 9,879 Mn and is disclosed in notes 20 &amp; 21. These collectively contributed to 88% of the Company's total assets.</p> <p>Impairment allowances on Loan and Lease receivables is a key audit matter due to:</p>	<p>Our audit procedures included amongst others the following;</p> <ul style="list-style-type: none"> <li>We assessed the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management.</li> <li>We evaluated the design, implementation and operating effectiveness of internal controls over estimation of the impairment allowances, including testing of related system controls.</li> <li>We checked the completeness, accuracy and classification of the underlying data used in the computation of impairment allowances by agreeing details to relevant source documents and accounting records of the Company.</li> </ul>

Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"> <li>Materiality of the reported provision for credit impairment which involved complex calculations; and</li> <li>Significant judgements used in assumptions and estimates made by the management as reflected in note 2.9, which in the current year was influenced by the need to assess the change in current economic conditions on forward looking information and the continuing impact of Covid-19 debt moratorium relief measures.</li> </ul>	<p><b>For Loan and Lease receivables assessed on a collective basis for Impairment:</b></p> <ul style="list-style-type: none"> <li>We tested key calculations used in the impairment allowances.</li> <li>We assessed whether significant judgements used in assumptions estimates used by the management in the underlying methodology and management overlays were reasonable. We also evaluated the reasonableness of forward looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios. Our procedures were based on the best available information up to the date of our report.</li> </ul>
<p><b>Financial reporting related IT based Internal controls</b></p> <p>A significant part of the Company's financial reporting process is primarily reliant on IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spread sheets.</p> <p>Accordingly, financial reporting related IT based Internal controls is considered a key audit matter.</p>	<p>Our audit procedures included the following;</p> <ul style="list-style-type: none"> <li>We obtained an understanding of the internal control environment of the processes relating to financial reporting and related disclosures.</li> <li>We identified and test checked relevant controls of key IT systems related to the Company's Financial reporting process.</li> <li>We evaluated the design and operating effectiveness of IT controls, including those related to user access and change management.</li> <li>We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of general ledger reconciliations.</li> </ul>

#### OTHER INFORMATION INCLUDED IN THE 2022 ANNUAL REPORT

Other information consists of the information included in the Company's 2022 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2022 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

#### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. A A Ludowyke FCA FCMA, Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeevani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: G B Goudian ACA, Ms. P S Paranavitane ACA LLB (Colombo), T P M Ruberu FCA FCCA

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# INDEPENDENT AUDITORS' REPORT



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As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2965.

31 May 2022  
Colombo

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# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st March			2022	2021
	Notes	Page	LKR	LKR
<b>Income</b>	5	193	<b>1,930,409,278</b>	1,743,539,205
Interest Income			1,822,315,188	1,584,744,640
Interest Expenses			(562,116,108)	(623,347,022)
<b>Net Interest Income</b>	6	193	<b>1,260,199,080</b>	961,397,618
Net Fee and Commission Income	7	194	63,587,270	35,856,002
Other Operating Income	8	194	44,506,819	122,938,563
<b>Total Operating Income</b>			<b>1,368,293,170</b>	1,120,192,183
Impairment Charges for Loans and Other Losses	9	195	(192,618,588)	(60,091,862)
<b>Net Operating Income</b>			<b>1,175,674,582</b>	1,060,100,321
<b>Operating Expenses</b>				
Personnel Expenses	10	196	(440,417,817)	(374,095,908)
Depreciation of Property, Plant and Equipment			(33,428,444)	(37,102,566)
Amortisation of Right of Use Assets			(64,393,112)	(62,944,563)
Amortisation of Intangible Assets			(2,947,501)	(10,055,835)
Other Operating Expenses	11	197	(259,224,168)	(219,704,378)
<b>Operating Profit before Tax on Financial Services</b>			<b>375,263,540</b>	356,197,071
Tax on Financial Services	12	197	(106,552,907)	(89,362,305)
<b>Profit before Taxation</b>			<b>268,710,633</b>	266,834,766
Income Tax Expenses	13	198	(53,244,387)	(83,478,023)
<b>Profit for the Year</b>			<b>215,466,246</b>	183,356,743
<b>Other Comprehensive Income</b>				
Actuarial Gains/(Losses) on Defined Benefit Plans	33	225	3,420,601	(13,647,141)
Gain/(Loss) due to changes in Assumptions	33	225	32,703,154	(6,755,239)
Deferred Tax (Charge)/Reversal on above items			(4,334,851)	4,896,571
<b>Net Other Comprehensive Income not to be Reclassified to Profit or Loss</b>			<b>31,788,904</b>	(15,505,809)
Surplus from Revaluation of Property, Plant & Equipment			-	18,050,000
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment			-	(4,332,000)
<b>Net Other Comprehensive Income not to be Reclassified to Profit or Loss</b>			<b>-</b>	13,718,000
Other Comprehensive Income for the Year, Net of Tax			31,788,904	(1,787,809)
<b>Total Comprehensive Income/(Expenses) for the Year</b>			<b>247,255,150</b>	181,568,935
Basic / Diluted Earnings per Share *	14	199	1.86	2.55
Dividend per Share **	15	200	1.00	-

\* Calculated based on profit/(loss) for the year

\*\* Dividend per share is calculated based on the interim dividend paid and the proposed final dividend which is to be approved at the Annual General Meeting.

Accounting Policies and Notes from pages 185 to 251 form an integral part of these Financial Statements.

# STATEMENT OF FINANCIAL POSITION

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As at 31st March	Notes	Page	2022 LKR	2021 LKR
<b>Assets</b>				
Cash and Cash Equivalents	17	201	92,132,395	130,870,989
Financial Investments	18	202	532,667,038	374,591,188
Other Financial Assets	19	202	814,391	779,506
Financial Assets at Amortised Cost - Loans and Receivables	20	203	5,110,595,093	4,954,331,169
Financial Assets at Amortised Cost - Lease Rentals Receivables	21	205	4,768,166,996	2,952,368,025
Other Non Financial Assets	23	211	162,122,503	99,226,178
Investment Property	24	212	234,257,500	215,678,750
Property, Plant and Equipment	25	214	139,267,592	160,884,369
Right-of-use Lease Assets	26	217	129,533,191	142,812,343
Intangible Assets	27	218	4,927,786	5,055,287
<b>Total Assets</b>			<b>11,174,484,484</b>	<b>9,036,597,804</b>
<b>Liabilities</b>				
Due to Banks and Other Institutions	28	219	2,320,184,829	1,729,624,109
Financial Liability at Amortised Cost - Due to Customers	29	221	4,729,097,119	4,551,945,183
Lease Liability	30	222	149,951,692	161,198,954
Other Non Financial Liabilities	31	223	596,809,388	282,552,100
Current Tax Liabilities	32	224	21,170,445	53,665,325
Post Employment Benefit Liability	33	225	32,066,158	55,828,613
Deferred Tax Liabilities	34	227	20,409,737	20,398,293
<b>Total Liabilities</b>			<b>7,869,689,368</b>	<b>6,855,212,578</b>
<b>Shareholders' Funds</b>				
Stated Capital	35	228	2,696,113,032	1,696,113,020
Reserves	36	229	171,365,549	160,592,236
Retained Earnings	37	229	437,316,534	324,679,970
<b>Total Shareholders' Funds</b>			<b>3,304,795,115</b>	<b>2,181,385,226</b>
<b>Total Liabilities and Shareholders' Funds</b>			<b>11,174,484,484</b>	<b>9,036,597,804</b>
Commitments and Contingencies	38	230	4,290,100	7,689,916
Net Assets Value per Share	39	231	22.09	20.95

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

  
**Asanka Nawarathna**  
Head of Finance

  
**Nilantha Jayanetti**  
Chief Executive Officer

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board of Directors by;

  
**Channa de Silva**  
Chairman

  
**Chamindha Rajakaruna**  
Director

Accounting Policies and Notes from pages 185 to 251 form an integral part of these Financial Statements.  
25th May 2022  
Colombo

# STATEMENT OF CHANGES IN EQUITY

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	Stated Capital LKR	Statutory Reserves LKR	Revaluation Reserves LKR	Retained Earnings LKR	Total Equity LKR
<b>Balances as at 1 April 2020</b>	890,000,020	67,406,126	42,796,761	195,476,359	1,195,679,266
<b>Comprehensive Income for the year</b>					
Profit for the Year	-	-	-	183,356,743	183,356,743
Other Comprehensive Income	-	-	13,718,000	(15,505,809)	(1,787,809)
<b>Total Comprehensive Income for the year</b>	-	-	13,718,000	167,850,934	181,568,934
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>					
Transfer to Statutory Reserves Fund	-	36,671,349	-	(36,671,349)	-
Share Issue	806,113,000	-	-	-	806,113,000
Expenses related to the Share Issue	-	-	-	(1,975,974)	(1,975,974)
<b>Total transaction with equity holders</b>	806,113,000	36,671,349	-	(38,647,323)	804,137,026
<b>Balances as at 31 March 2021</b>	1,696,113,020	104,077,475	56,514,761	324,679,970	2,181,385,226
<b>Balances as at 1 April 2021</b>	1,696,113,020	104,077,475	56,514,761	324,679,970	2,181,385,226
<b>Comprehensive Income for the year</b>					
Profit for the Year	-	-	-	215,466,246	215,466,246
Other Comprehensive Income	-	-	-	31,788,904	31,788,904
<b>Total Comprehensive Income for the year</b>	-	-	-	247,255,150	247,255,150
<b>Transactions with Equity Holders, Recognised Directly in Equity</b>					
Transfer to Statutory Reserves Fund	-	10,773,312	-	(10,773,312)	-
Share Issue	1,000,000,012	-	-	-	1,000,000,012
Expenses related to the Share Issue	-	-	-	(49,047,249)	(49,047,249)
Interim Dividend	-	-	-	(74,798,026)	(74,798,026)
<b>Total transaction with equity holders</b>	1,000,000,012	10,773,312	-	(134,618,587)	876,154,738
<b>Balances as at 31 March 2022</b>	2,696,113,032	114,850,787	56,514,761	437,316,534	3,304,795,115

Accounting Policies and Notes from pages 185 to 251 form an integral part of these Financial Statements.

# STATEMENT OF CASH FLOWS

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For the year ended 31st March		2022	2021
	Notes	LKR	LKR
<b>Cash Flows From / (Used in) Operating Activities</b>			
Profit before Income Tax Expense		268,710,633	266,834,766
<b>Adjustments for</b>			
Impairment Charges for Loans and Other Losses	9	195	192,618,588
Changing Fair Value of Investment Property			(18,578,750)
Loss/(Profit) on Disposal of Property, Plant and Equipment			1,744,069
Profit/(Loss) on ROU assets			(672,002)
Provision for Defined Benefit Plans	10	196	20,456,300
Depreciation of Property, Plant and Equipment	25.1	215	33,428,444
Amortisation of Intangible Assets			2,947,501
Amortisation of Right to Use Assets			64,393,112
Interest Expenses on Lease Creditor			18,005,565
<b>Operating Profit before Working Capital Changes</b>			<b>583,053,459</b>
(Increase)/Decrease in Loans and Receivables	20	203	(173,355,281)
(Increase)/Decrease in Lease Rentals Receivables	21	205	(1,983,759,093)
(Increase)/Decrease in Other Financial Assets			(34,885)
(Increase)/Decrease in Other Non Financial Assets			(70,463,433)
Increase/(Decrease) in Amounts Due to Customers	29	221	177,151,935
Increase/(Decrease) in Other Non Financial Liabilities			239,354,827
<b>Cash Generated from Operations</b>			<b>(1,228,052,469)</b>
Retirement Benefit Liabilities Paid			(8,095,000)
Net Collection of LRAB Fund			104,435
Income Tax Paid	31	223	(90,062,673)
Repayment of Lease Liability			(79,694,785)
<b>Net Cash From/(Used in) Operating Activities</b>			<b>(1,405,800,491)</b>
<b>Cash Flows from / (Used in) Investing Activities</b>			
Sales of Property, Plant and Equipment			274,301
Acquisition of Property, Plant and Equipment	25.1	215	(13,830,036)
Acquisition of Intangible Assets	27.2	219	(2,820,000)
Financial Investment			(158,075,850)
<b>Net Cash Flows from/(Used in) Investing Activities</b>			<b>(174,451,586)</b>
<b>Cash Flows from / (Used in) Financing Activities</b>			
Funds received from bank and other institutional borrowings	28.2	220	1,560,350,000
Repayment of bank and other institutional borrowings	28.2	220	(1,075,832,549)
Funds Received from Share Issue			1,000,000,012
Expenses related to the Share Issue			(49,047,249)
<b>Net Cash Flows from/(Used in) Financing Activities</b>			<b>1,435,470,215</b>
<b>Net Increase in Cash and Cash Equivalents</b>			<b>(144,781,862)</b>
Cash and Cash Equivalents at the beginning of the year			(96,338,146)
<b>Cash and Cash Equivalents at the end of the year</b>	A		<b>(241,120,008)</b>
<b>A. Cash and Cash Equivalents at the end of the year</b>			
Favorable Cash & Cash Equivalents			92,132,395
Unfavorable Cash & Cash Equivalents			(333,252,403)
<b>Total Cash and Cash Equivalents at the end of the year</b>	17.1	201	<b>(241,120,008)</b>

Accounting Policies and Notes from pages 185 to 251 form an integral part of these Financial Statements.

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## 1. CORPORATE INFORMATION

### 1.1 General

Sarvodaya Development Finance PLC (The 'Company') is a public limited liability company incorporated and domiciled in Sri Lanka and is a Licensed Finance Company regulated under the Finance Business Act No.42 of 2011 and amendments thereto. The shares of the Company have a primary listing on the Colombo Stock Exchange (CSE).

The registered office of the Company is located at No 155/A, Dr. Danister De Silva Mawatha, Colombo 08 and the principal place of business is situated at the same place.

The Company's parent undertaking is Sarvodaya Economic Enterprises Development Services (Gte) limited, which is also the Company's ultimate Parent.

### 1.2 Principal Activities of the Company

The principal activities of the Company consist of Acceptance of Deposits, Granting Micro Finance Loans, SME Loan, Leasing, Housing Loans, Business Loans, Gold loan and other credit facilities and related services.

### 1.3 Approval of the Financial Statements

The Financial Statements of the Company for the year ended 31 March 2022 (including comparatives) have been approved and authorized for issue by the Board of Directors on 25th May 2022.

### 1.4 Number of Employees

The staff strength of the Company as at 31 March 2022 and 31 March 2021 is 508 and 480 respectively.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### 2.1. Statement of Compliance

The Financial Statements of the Company which comprise of the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Significant Accounting Policies and Notes have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 7 of 2007 and the listing rules of the Colombo Stock Exchange. The presentation of Financial Statements is also in compliance with the requirements of Finance Business Act No. 42 of 2011 and amendments thereto. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

Sri Lanka Accounting Standards are available at 'www.casrilanka.com / www.slaasc.lk'.

### 2.2. Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company, in

compliance with the provisions of the Companies Act No. 07 of 2007 and SLFRSs/LKASs.

The Board of Directors acknowledges their responsibility as set out in the 'Report of the Board of Directors on the Affairs of the Company', 'Directors' Responsibility for Financial Reporting' and 'Directors' Statement on Internal Control over Financial Reporting' and the certification given on the 'Statement of Financial Position' of the Annual Report

These Financial Statements include the following components;

- A Statement of Profit or Loss and Other Comprehensive Income provides the information on the performance for the year under review (Refer page 181).
- A Statement of Financial Position provides the information on the financial position of the Company as at the yearend (Refer page 182).
- A Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 183).
- A Statement of Cash Flows provides the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs for entities to utilize those cash flows (Refer page 184) and
- Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 185 to 251).

### 2.3. Preparation of Financial Statements

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position:

Name	Basis of Measurement	Note Number/s	Page Number/s
Land & buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	Note 25	Page 216
Defined benefit obligations	Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	Note 33	Page 225

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Name	Basis of Measurement	Note Number/s	Page Number/s
Investment Properties	Measured at fair value at the time of transferred from Property, plant & Equipment. Subsequently valued at fair value.	Note 24	Page 212

## 2.4. Presentation of Financial Statements

The Company present its Statement of Financial Position broadly by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery and settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 37 to these Financial Statements. No adjustments have been made for inflationary factors affecting the Financial Statements.

## 2.5. Use of Materiality, Aggregation, Offsetting and Rounding

### Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards - LKAS 01 on 'Presentation of Financial Statements', each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

### Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or loss unless required or permitted by an Accounting Standard or interpretation, and specifically disclosed in the accounting policies of the Company.

### Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 01 (Presentation of Financial Statements).

## 2.6. Functional and presentation currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency, unless indicate otherwise.

## 2.7. Going Concern

The Board of Directors of the Company has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Company has submitted a 5-year strategic business plan to the CBSL as a requirement of the proposed finance sector consolidation process to become a LKR 20 Bn assets company in 2026. The Company has raised LKR 1 Bn new share capital through an IPO

to comply with the CBSL minimum core capital requirement of LKR 2.5 Bn. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

## 2.8. Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

## 2.9. Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Company, management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

Accounting judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key significant accounting judgments, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in related Notes.

### Classification of financial assets and liabilities

As per SLFRS 9, the Significant Accounting Policies of the Company provides scope for Financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the following criteria;

- The entity's business model for managing the Financial assets as set out in Note 3.2.2 on page 188.
- The contractual cash Flow characteristics of the Financial assets as set out in Note 3.2.2 on page 189.

### Impairment losses on financial Assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash Flows and collateral values when determining impairment losses.

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The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets are impaired.

### Impairment losses on loans and lease receivables

The Company use number of estimates and assumptions for the calculation of impairment losses on loans and lease receivables. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

Details of the 'impairment losses on loans and receivables' are given in Note 22 on page 208 to the financial statements.

### Impairment charges on financial investments

Financial investments are categorised under amortised cost subject to Impairment in accordance with SLFRS 9 -Financial Investment. The Company does not have historical loss experience on debt instruments at amortised cost. The Company does not have financial investments that required impairment charges.

### Useful life time of Property, Plant and Equipment

The Company reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty. Details of the 'useful life-time of the Property, Plant and Equipment' are given in Note 25 on page 214 to the financial statements.

### Useful life time of the Intangible Assets

Details of the 'useful life-time of the intangible assets' are given in Note 27 on page 218 to the financial statements.

### Deferred tax

Details of the 'deferred tax' are given in Note 34 on page 227 to the financial statements.

### Post-Employment Benefit obligation

Details of the 'Post-Employment benefit obligation' are given in Note 33 on page 225 to the financial statements.

### Related Party Transactions

Details of the 'Related Party Transactions' are given in Note 43 on page 223 to the financial statements.

## 3. GENERAL ACCOUNTING POLICIES

Description	Note	Page No
<b>Accounting Policies - General</b>		
Changes in accounting standards	3.1	188
Financial instruments - initial recognition and subsequent measurement	3.2	188

Description	Note	Page No
Impairment of non-financial assets	3.3	190
Provisions	3.4	190
Borrowing costs	3.5	191
Income tax	3.6	191
Deferred tax	3.7	191
Crop Insurance Levy	3.8	191
Tax on financial services	3.9	191
<b>Accounting Policies - Statement of Profit or loss</b>		
Income	5	193
Net interest income	6	193
Net fee and commission income	7	197
Other operating income	8	194
Impairment charges / (Reversal) for loans and other losses	9	195
Personnel expenses	10	196
Other operating expenses	11	197
Tax on financial services	12	197
Income tax expenses	13	198
Basic/diluted earnings per ordinary share	14	199
Dividend paid and proposed dividend	15	200
<b>Accounting Policies - Assets and Liabilities</b>		
Cash and cash equivalents	17	201
Financial Investments	18	202
Other Financial Assets	19	202
Financial Assets at Amortised Cost - Loans and Receivables	20	203
Financial Assets at Amortised Cost - Lease Rentals Receivables	21	205
Other Non-Financial Assets	22	208
Investment Property	24	212
Property, Plant and Equipment	25	214
Right-of-use Lease Assets	26	217
Intangible Assets	27	218
Due to Banks and Other Institutions	28	219
Financial Liabilities at Amortised Cost - Due to Customers	29	221
Lease Liabilities	30	223
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## 3.1 Changes In Accounting Standards

In these financial statements, the Company has applied Sri Lanka Accounting Standard - Amendments to SLFRS 16: Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 and Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2 which became effective for the annual reporting periods beginning on or after 1 January 2021, for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but not effective.

### Amendments to SLFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021

In 4 December 2020, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued Covid-19-Related Rent Concessions - amendment to SLFRS 16 Leases. The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, in 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

### Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2

#### IBOR reform Phase 1

In 15 January 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform (Phase 1). A summary of Phase 1 amendments are as follows:

**Highly Probable Requirement:** when determining whether a forecast transaction is highly probable to be designated as a hedged item, an entity shall assume that the interest rate benchmark on which the hedged cashflows are based is not altered as a result of the reform

**Prospective assessments:** when performing prospective assessments to evaluate whether a hedging relationship qualifies for hedge accounting, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform

**LKAS 39 retrospective assesment:** an entity is not required to undertake the 'LKAS 39 retrospective assesment' for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assesment

**Separately identifiable risk components:** For hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement of risk component (or a portion) to be separately identifiable to be eligible for hedge accounting, only at the inception of such hedging relationships

#### IBOR reform Phase 2

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to Interest Rate Benchmark Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include several practical expedients

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021 in the Sri Lankan context

## 3.2 Financial Instruments - initial recognitions and subsequent measurement

### 3.2.1 Date of recognition

All financial assets and liabilities except 'regular way trades' are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. 'Regular way trades' means purchases or sales of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the market place. Those trades are initially recognised on the settlement date.

### 3.2.2 Classification and subsequent measurement of financial assets

As per SLFRS 9, the Company classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

#### Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument-by-instrument basis because this best reflects the way the business is managed and information is provided to management. The information considered includes:

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- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI test)

As a second step of its classification process the Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In contrast, contractual terms that introduce a more than the minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the

Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money.

The Company holds a portfolio of long-term fixed rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Company has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Details on different types of financial assets recognised on the Statement of Financial Position.

#### Financial assets measured at amorised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are given in Notes 16 on page 201.

#### Financial assets measured at FVOCI

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income. The Company do not have financial assets measured at FVOCI as at 31 March 2022.

#### Financial assets measured at FVTPL

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash

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flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss. The Company do not have financial assets measured at FVTPL as at 31 March 2022.

### 3.2.3 Derecognition of financial assets and financial liabilities

#### Financial Assets

Financial Assets A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when;

- The rights to receive cash flows from the asset which have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either;
  - The Company has transferred substantially all the risks and rewards of the asset; or
  - The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and consideration received and any cumulative gain or loss that has been recognised in Statement of Comprehensive Income is recognised in Statement of Profit or Loss.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the company's continuing involvement in the asset. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

#### Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in Statement of Profit or Loss.

### 3.2.4 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

Income and expenses are presented on a net basis only when permitted under LKASs / SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

### 3.2.5 Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 16 on page 201.

### 3.3 Impairment of non-financial assets

The carrying amounts of the Company's non financial assets, other than deferred tax assets are reviewed at each Reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing of an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use.

Where the carrying amount of an asset or cash – generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators.

### 3.4 Provisions

Provisions are recognised in the Statement of Financial Position when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with the Sri Lanka Accounting Standard - LKAS 37 on 'Provision, Contingent Liabilities and Contingent Assets'.

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The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows. A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

### 3.5 Borrowing cost

As per Sri Lanka Accounting Standard- LKAS 23 on 'Borrowing Costs', the Company capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the Statement of Profit or Loss in the period in which they occur.

### 3.6 Income tax

Details of the 'income tax expense' are given in Note 13 on page 198 to the financial statements.

### 3.7 Deferred tax

Details of the 'deferred tax' are given in Note 34 on page 227 to the financial statements.

### 3.8 Crop Insurance Levy

As per the provisions of the Section 14 of the Finance Act No.12 of 2013, the CIL was introduced with effect from April 1, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

### 3.9 Tax on financial services

Details of the 'VAT, NBT on financial services are given in Note 12 on page 197 to the financial statements.

## 4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following Sri Lanka Accounting Standards and interpretations were issued by The Institute of Chartered Accountants of Sri Lanka but not yet effective as at 31 March 2022. Accordingly, these accounting standards have not been applied in the preparation of the Financial Statements for the year ended 31 March 2022. Following amendment is not expected to have a material impact on

the Financial Statements of the Company in the foreseeable future.

### SLFRS 17 Insurance Contracts

In 8 January 2020, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued SLFRS 17 Insurance Contracts (SLFRS 17). SLFRS 17 was amended by Amendments to SLFRS 17 – Insurance Contracts, in 28 June 2021. SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts (SLFRS 4) that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contract
- SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

### Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets : Onerous Contracts - Costs of Fulfilling a Contract

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets (LKAS 37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

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## Amendments to LKAS 16 Property, Plant & Equipment : Proceeds before Intended Use

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued LKAS 16 Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment

## Amendments to SLFRS 3 Business Combinations : Updating a reference to conceptual framework

In 23 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 3 Business Combinations - Updating a Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements

An exception was also added to the recognition principle of SLFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21 Levies, if incurred separately

At the same time, it was decided to clarify existing guidance in SLFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively

## SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards - Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 1 First-time Adoption of International Financial Reporting Standards (SLFRS 1). The amendment permits a subsidiary that elects to apply paragraph D16(a) of SLFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to SLFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of SLFRS 1

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

## SLFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 9 Financial Instruments (SLFRS 9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

## LKAS 41 Agriculture - Taxation in fair value measurements

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to LKAS 41 Agriculture (LKAS 41). The amendment removes the requirement in paragraph 22 of LKAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of LKAS 41

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted

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## 5. INCOME

### Accounting Policy >>

Gross income (Revenue) is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are given under the respective income notes.

### Year ended 31st March 2022

	Note	Page	2022 LKR	2021 LKR
Interest Income	6.1	193	1,822,315,188	1,584,744,640
Net Fee and Commission Income	7	194	63,587,270	35,856,002
Other Operating Income (net)	8	194	44,506,819	122,938,563
<b>Total Income</b>			<b>1,930,409,278</b>	<b>1,743,539,205</b>

### Recognition of interest income for credit facilities under moratoriums

The adjusted EIR has been applied for the moratorium granted facilities to recognise interest income till the end of the lifetime of the instrument.

## 6. NET INTEREST INCOME

### Accounting Policy >>

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

The Company use the Effective Interest Rate (EIR) method for recognising the interest income and interest expenses of Financial Assets and Financial Liabilities that are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income under SLFRS 09. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the Financial Asset or Financial Liability

Once the recorded value of financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

### Recognition of interest income for credit facilities under moratoriums"

The adjusted EIR has been applied for the moratorium granted facilities to recognise interest income till the end of the lifetime of the instrument.

### Year ended 31st March 2022

	2022 LKR	2021 LKR
<b>6.1 Interest Income</b>		
Financial Assets at Amortised Cost - Loans and Receivables	917,956,222	993,024,757
Financial Assets at Amortised Cost - Lease Rentals Receivables	867,285,943	553,963,114
Financial Investments	29,888,102	24,195,687
Cash and cash equivalent - Savings Deposits	7,145,578	2,925,060
Other Financial Assets	39,343	10,636,021
<b>Total Interest Income</b>	<b>1,822,315,188</b>	<b>1,584,744,640</b>
<b>6.2 Interest Expenses</b>		
Due to Bank and Other Institution	219,495,225	162,008,088
Financial Liabilities at Amortised Cost - Due to Customers	324,615,318	437,418,843
Lease Liabilities	18,005,565	23,920,090
<b>Total Interest Expenses</b>	<b>562,116,108</b>	<b>623,347,022</b>
<b>Net Interest Income</b>	<b>1,260,199,080</b>	<b>961,397,618</b>

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## 7. NET FEE AND COMMISSION INCOME

### Accounting Policy >>

The Company earns fee and commission income from a diverse range of services it provides to its customer. The Company recognises Fee and Commission income net of directly attributable expenses.

### Credit Related Fees and Services

Fees earned for the provision of services over a period of time are accrued over that period. These fees include professional fees, trade service fees, CRIB charges, Insurance commission and Other credit related changes.

### Other Fee and Commission Expense

Other Fee and commission expense relate mainly to transactions and services fees which are expensed as the services are received. Fee and commission expense are recognised on an accrual basis.

### 7.1 Fee and Commission Income

For the year ended 31st March	2022 LKR	2021 LKR
Credit Related Fees and Commissions	28,349,729	19,306,211
Documentation Charges	35,423,082	24,614,575
Service Charge	15,651,465	7,976,258
<b>Total Fee and Commission Income</b>	<b>79,424,276</b>	<b>51,897,044</b>

### 7.2 Fee and Commission Expenses

For the year ended 31st March	2022 LKR	2021 LKR
Credit Related Fees and Commissions	8,226,185	8,473,038
Documentation Charges	575,857	146,198
Service Charge	7,034,965	7,421,806
<b>Total Fee and Commission Expenses</b>	<b>15,837,006</b>	<b>16,041,042</b>

**Total Net Fee and Commission Income** 63,587,270 35,856,002

## 8. OTHER OPERATING INCOME

### Accounting Policy >>

Income earned on other sources, which are not directly related to the normal operations of the Company is recognised as other operating income on an accrual basis.

Other operating income includes recoveries of written-off loans and receivables, gains from property, plant & equipments and reversal of provision of Loan Risk Assurance Benefit Fund.

For the year ended 31st March	Note	Page	2022 LKR	2021 LKR
Recoveries of Written-Off Loans & Receivables			11,691,105	18,955,297
Profit/(Loss) on Disposal of Property Plant & Equipment			(1,744,069)	267,857
Gain from Fair Value of Investment Property			18,578,750	89,584,250
Rent income from investment property			8,290,200	8,305,200
Other Sundry Income	8.1	194	7,690,833	5,825,959
<b>Total Other Operating Income</b>			<b>44,506,819</b>	<b>122,938,563</b>

8.1 Other Sundry Income included savings accounts threshold charges, income from solar project, stationery income and other.

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## 9. IMPAIRMENT CHARGES/(REVERSAL) FOR LOANS AND OTHER LOSSES

### Accounting Policy >>

The Company recognises the changes in the impairment provisions for loans and lease receivables and other customers, which are assessed as per the LKAS 9: Financial Instruments. The methodology adopted by the Company is explained in Note 22 to these Financial Statements.

For the year ended 31st March	2022 LKR	2021 LKR
Loans and Receivables	126,032,417	42,487,510
Finance Lease Rental Receivables	59,019,063	8,397,145
Provision for Other Assets	7,567,108	9,207,207
<b>Total Impairment Charges for Loans and Other Losses</b>	<b>192,618,588</b>	<b>60,091,862</b>

### 9.1 Impairment charge/(reversal) for loans and other losses (Detailed breakdown)

For the year ended 31st March	2022			
	Disposal loss/ Write-offs LKR	Charge LKR	(Reversal) LKR	Net Amount LKR
Loans and Receivables	(108,931,128)	414,635,895	(179,672,350)	127,368,440
Lease Rentals Receivables	-	106,333,876	(47,314,814)	57,683,039
Other receivables	-	7,567,108	-	7,567,108
<b>Total</b>	<b>(108,931,128)</b>	<b>528,536,880</b>	<b>(226,987,164)</b>	<b>192,618,588</b>

For the year ended 31st March	2021			
	Disposal loss/ Write-offs LKR	Charge LKR	(Reversal) LKR	Net Amount LKR
Loans and Receivables	-	199,368,474	(156,880,965)	42,487,510
Lease Rentals Receivables	-	58,433,664	(50,036,519)	8,397,145
Other receivables	-	9,207,207	-	9,207,207
<b>Total</b>	<b>-</b>	<b>267,009,345</b>	<b>(206,917,484)</b>	<b>60,091,862</b>

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## 9. IMPAIRMENT CHARGES/(REVERSAL) FOR LOANS AND OTHER LOSSES (CONTD.)

### 9.2 Impairment charges to the Statement of Profit or Loss - Stage wise analysis

For the year ended 31st March	2022			Total LKR
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	
Loans and Receivables	125,491,296	(7,053,832)	7,594,952	126,032,416
Lease Rentals Receivables	32,976,977	15,375,037	10,667,049	59,019,063
Other receivables	-	-	7,567,108	7,567,108
<b>Total</b>	<b>158,468,273</b>	<b>8,321,204</b>	<b>25,829,110</b>	<b>192,618,588</b>

For the year ended 31st March	2021			Total LKR
	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	
Loans and Receivables	(3,182,399)	(8,419,547)	54,089,455	42,487,510
Lease Rentals Receivables	13,087,177	1,778,863	(6,468,895)	8,397,145
Other receivables	-	-	9,207,207	9,207,207
<b>Total</b>	<b>9,904,779</b>	<b>(6,640,685)</b>	<b>56,827,768</b>	<b>60,091,862</b>

## 10. PERSONNEL EXPENSES

### Accounting Policy >>

Personnel costs includes salaries and bonus, other staff related expenses, terminal benefit charges and other related expenses. The provisions for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. The Company contributes 12% and 3% of gross salaries of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

Contributions to defined benefit plans are recognised in the Statement of profit or Loss and other comprehensive income based on an actuarial valuation carried out for the gratuity liability of the Company in accordance with LKAS 19, Defined benefit Obligations.

For the year ended 31st March	2022 LKR	2021 LKR
Salaries and Other Related Expenses	373,311,469	323,350,593
Employer's Contribution to Employees' Provident Fund	28,074,814	24,383,353
Employer's Contribution to Employees' Trust Fund	7,018,704	6,095,373
Gratuity Charge for the Year	19,897,300	12,491,938
Other Staff Related Expenses	12,115,531	7,774,651
<b>Total Personnel Expenses</b>	<b>440,417,817</b>	<b>374,095,908</b>

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## 11. OTHER OPERATING EXPENSES

### Accounting Policy >>

Other operating expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

### Crop Insurance Levy

As per provisions of the Section 14 of the Finance Act No. 12 of 2013, the Crop Insurance Levy was introduced with effect from 01 April 2013 and is payable to the National Insurance Trust Fund. Currently, the crop insurance levy is payable at 1 percent of profit after tax.

For the year ended 31st March	2022 LKR	2021 LKR
Directors' Emoluments	9,924,000	7,576,000
Auditors Remuneration	2,559,978	3,282,876
Professional and Legal Expenses	5,290,133	3,207,802
Deposit Insurance Premium	6,019,843	6,605,953
General Insurance Expenses	3,510,287	5,177,963
Office Administration and Establishment Expenses	139,551,105	119,906,859
Travelling & Transport Expenses	45,545,293	32,591,090
Other Expenses	2,394,738	6,775,302
Marketing and Promotional Expenses	44,428,791	34,580,533
<b>Total Other Operating Expenses</b>	<b>259,224,168</b>	<b>219,704,378</b>

## 12. TAX ON FINANCIAL SERVICES

### Accounting Policy >>

### Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of VAT on Financial Services is the accounting profit before VAT and NBT on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits.

VAT on Financial Services is charged as 18% with effect from 01 January 2022 (15% charge up to 31 December 2021).

### Nations Building Tax (NBT) on Financial Services

As per provisions of the Nation Building Tax (NBT) Act No 9 of 2009 and amendments thereto, NBT on Financial Services was payable at 2% on Company's value additions attributable to financial services with effect from 1 January 2014. The value addition attributable to financial service is same as the value using to calculate VAT on Financial Services.

As per Notice published by the Department of Inland Revenue dated 29 November 2019, NBT was abolished with effect from 1 December 2019.

For the year ended 31st March	2022 LKR	2021 LKR
Value Added Tax on Financial Services	106,552,907	88,994,892
National Building Tax on Financial Services	-	367,413
<b>Total Tax on Financial Services</b>	<b>106,552,907</b>	<b>89,362,305</b>

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## 13. INCOME TAX EXPENSES

### Accounting Policy >>

As per the Sri Lanka Accounting Standard - LKAS 12 on Income Taxes, the tax expense/tax income is the aggregate amount included in determination of profits or loss for the period in respect of income tax and deferred tax. The tax expense/income is recorded in the Statement of Profit or Loss except to the extent it relates to items recognized directly in Equity or Statement of Comprehensive Income (OCI), in which case it is recognized in Equity or OCI.

### Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years the tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 and the amendments thereto at the rates specified in Note 13.1 to these Financial Statements.

### Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 34 to the financial statements.

The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. As per the new budget proposal, the company is eligible for the concessionary tax rate of 12% as a result of the company listing on the Colombo Stock Exchange before 31 December 2021 ( Y/A 2020/21 - 24%).

The components of the income tax expense for the years ended 31 March 2022 and 2021 are:

For the year ended 31st March			2022	2021
	Note	Psge	LKR	LKR
<b>Income Taxation</b>				
Taxation based on Profits for the Year	13.1	199	55,736,127	77,582,750
Under/(Over) Provision of Current Taxes in respect of Previous Years			1,831,667	3,959,133
<b>Deferred Taxation</b>				
Transfers to/(from) Deferred Taxation	34	227	(4,323,406)	1,936,139
<b>Total Tax Expenses</b>			<b>53,244,387</b>	<b>83,478,023</b>
Deferred tax charge/(reversal) for other comprehensive income			(4,334,851)	564,571
<b>Income tax charge / (reversal) recognised in statement of comprehensive income</b>			<b>(4,334,851)</b>	<b>564,571</b>

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## 13.1 Reconciliation of Accounting Profit And Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the Years ended 31 March are as follows.

For the year ended 31st March			2022	2021
			LKR	LKR
Profit Before Tax			268,710,633	266,834,766
Add :Disallowable Expenses			362,760,697	214,426,153
Taxable Loss on Leasing Business			20,744,674	21,551,337
Adjustment on SLFRS 16			2,551,873	12,591,312
Less:Tax Deductible Expenses			(172,112,105)	(94,623,249)
Disallowable Income			(18,188,051)	(97,518,861)
<b>Adjusted Profit / (Loss) for Tax Purposes</b>			<b>464,467,722</b>	<b>323,261,459</b>
Assessable Income			464,467,722	323,261,459
Less - Allowable Losses			-	-
<b>Taxable Income</b>			<b>464,467,722</b>	<b>323,261,459</b>
Income Tax @ 24%			-	77,582,750
Income Tax @ 12%			55,736,127	-
<b>Income Tax on Current Year's Profit</b>			<b>55,736,127</b>	<b>77,582,750</b>
Effective tax rate (excluding deferred tax) (%)			14.85%	21.78%
Effective tax rate (%)			14.19%	23.44%

## 13.2 Under/(Over) Provision of Current Taxes in respect of Previous Years

The Company recorded an income tax under provision Rs 1,831,667/- for Y/A 2020/21 based on the submitted annual income tax return.

## 13.3 Differed Tax on Concesssary Rate

The company has reported additional differed tax expenses Rs. 17,247,836/- on changes of the statutory tax rate from 24% to 14%

## 14. BASIC / DILUTED EARNINGS PER SHARE

### Accounting Policy >>

Basic / Diluted EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) on 'Earnings per Share'. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares issued during the period multiplied by a time-weighting factor.

For the year ended 31st March			2022	2021
			LKR	LKR
<b>Amount used as the numerator</b>				
Profit attributed to ordinary shareholders ( Rs )			215,466,246	183,356,743
<b>Amount used as the denominator</b>				
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation			116,096,674	71,894,661
<b>Basic / Diluted Earnings per Share (LKR)</b>			<b>1.86</b>	<b>2.55</b>

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## 15. DIVIDEND PAID AND PROPOSED

### Accounting Policy >>

Provision for final dividends is recognised at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholder. LKR Interim dividends payable is recognised when Board approves such dividends in accordance with the Companies Act No 07 of 2007.

### For the year ended 31st March

	Note	Page	2022 LKR	2021 LKR
<b>15.1 Dividend per Share</b>				
<b>Dividends for Ordinary Shares:</b>				
Interim and Final Dividend for the financial year 2020/21	15.2	200	-	-
Interim Dividend for the financial year 2021/22 (LKR 0.50 per share)	15.3.1	200	74,798,026	-
Final Dividends for the financial year 2021/22 (LKR 0.50 per share)	15.3.2	200	74,798,026	-
<b>Total Dividends</b>			<b>149,596,052</b>	-
No of Ordinary Shares at the End of the Year			149,596,052	104,141,506
Divided per Share (LKR)			1.0	0.0

### 15.2 Dividend for the year 2020/21

As per the restrictions imposed on cash dividends from the Central Bank of Sri Lanka, the board of directors has not approved interim or final dividend for the financial year 2020/21 by further evaluating the and considering the COVID-19 challenges faced by the Company.

### 15.3 Dividend for the year 2021/22

#### 15.3.1 Interim dividend

However, the Company was paid an interim dividend of LKR 50 cents per share in respect of the financial year 2021/22 on the then issued shares of 149,596,052 after obtaining the requisite approval of the Central Bank of Sri Lanka.

#### 15.3.2 Final Dividend

The Company has recommended the payment of final dividend of LKR 50 cents per share to be paid in cash for ordinary shareholders' of the Company for the year ended 31 March 2022. The above first and final dividend recommended by the Board of Directors is to be approved by the regulator.

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## 16. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

### Accounting Policy >>

Financial Instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

### 16.1 Analysis of Financial Instruments by Measurement Basis

As at 31st March	2022		2021	
	Amortised Cost LKR	Total LKR	Amortised Cost LKR	Total LKR
<b>Financial Assets</b>				
Cash and Cash Equivalents	92,132,395	92,132,395	130,870,989	130,870,989
Financial Investments	532,667,038	532,667,038	374,591,188	374,591,188
Other Financial Assets	814,391	814,391	779,506	779,506
Financial Assets at Amortised Cost - Loans and Receivables	5,110,595,093	5,110,595,093	4,954,331,169	4,954,331,169
Financial Assets at Amortised Cost - Lease Rentals Receivables	4,768,166,996	4,768,166,996	2,952,368,025	2,952,368,025
<b>Total Financial Assets</b>	<b>10,504,375,912</b>	<b>10,504,375,912</b>	<b>8,412,940,877</b>	<b>8,412,940,877</b>
<b>Financial Liabilities</b>				
Due to Banks and Other Institutions	2,320,184,829	2,320,184,829	1,729,624,110	1,729,624,110
Due to Customers	4,729,097,119	4,729,097,119	4,551,945,183	4,551,945,183
Lease Liabilities	149,951,692	149,951,692	161,198,954	161,198,954
<b>Total Financial Liabilities</b>	<b>7,199,233,640</b>	<b>7,199,233,640</b>	<b>6,442,768,247</b>	<b>6,442,768,247</b>

## 17. CASH AND CASH EQUIVALENTS

### Accounting Policy >>

Cash and cash equivalents for the purpose of reporting in the Statement of Financial Position, comprise of cash in hand and balances with banks. The cash in hand comprises of local currency only.

As at 31st March	2022 LKR	2021 LKR
Cash in Hand	51,260,357	47,538,601
Balances with Banks	40,872,038	83,332,388
<b>Total Cash and Cash Equivalents</b>	<b>92,132,395</b>	<b>130,870,989</b>

### 17.1 Net cash and Cash Equivalents for the Purpose of the Cash Flow Statement

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts.

As at 31st March	Note	Page No	2022 LKR	2021 LKR
Favorable Cash & Cash Equivalents	17	201	92,132,395	130,870,989
Unfavorable Cash & Cash Equivalents	28	220	(333,252,403)	(227,209,135)
Cash & Cash Equivalents for Cash Flow Purposes			(241,120,008)	(96,338,146)

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## 18. FINANCIAL INVESTMENTS

### Accounting Policy >>

Financial investments include Government Securities and securities purchased under resale agreements. After initial measurement, these are subsequently measured at amortized cost using the EIR. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

As at 31st March	2022 LKR	2021 LKR
Sri Lanka Government Securities - REPO	532,667,038	374,591,188
<b>Total Financial Investments</b>	<b>532,667,038</b>	<b>374,591,188</b>

## 19. OTHER FINANCIAL ASSETS

### Accounting Policy >>

Financial investments include Fixed Deposit. After initial measurement, these are subsequently measured at amortized cost using the EIR. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

As at 31st March	2022 LKR	2021 LKR
Fixed Deposits	814,391	779,506
<b>Total Other Financial Assets</b>	<b>814,391</b>	<b>779,506</b>

### 19.1 Contractual Maturity Analysis of Other Financial Assets

As at 31st March 2022	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Fixed Deposits	814,391	-	-	814,391
<b>Total Other Financial Assets</b>	<b>814,391</b>	<b>-</b>	<b>-</b>	<b>814,391</b>

As at 31st March 2021	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Fixed Deposits	779,506	-	-	779,506
<b>Total Other Financial Assets</b>	<b>779,506</b>	<b>-</b>	<b>-</b>	<b>779,506</b>

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## 20. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES

### Accounting Policy >>

Loans and receivables include financial assets measured at amortized cost if both following conditions are made;

- Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

After initial measurement loans and receivables are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of comprehensive income.

As at 31st March	Note	Page	2022 LKR	2021 LKR
SME Loans			1,534,108,034	1,625,204,142
Micro Loan			794,848,779	1,198,289,378
Housing Loan			1,086,822,278	1,198,378,692
Scoeity Loan			488,031,599	339,302,197
Gold Loan			1,047,191,832	388,889,524
Loan on Depoaits			512,461,047	540,044,355
<b>Gross Loan and Receivables</b>			<b>5,463,463,569</b>	<b>5,290,108,288</b>
Less : Allowance for Impairment Charges for Loans and Receivables	22.1	210	(352,868,476)	(335,777,119)
<b>Net Loans and Receivables</b>			<b>5,110,595,093</b>	<b>4,954,331,169</b>

### 20.1 Analysis

#### 20.1.1 Analysis by stage wise

As at 31st March 2022	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Collective Impared loans and receivables	3,391,277,669	686,278,213	1,385,907,686	5,463,463,569
Less - Allowance for expected credit losses (ECL)	(64,973,956)	(31,216,052)	(256,678,469)	(352,868,476)
<b>Total</b>	<b>3,326,303,714</b>	<b>655,062,162</b>	<b>1,129,229,217</b>	<b>5,110,595,092</b>

As at 31st March 2021	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Collective Impared loans and receivables	2,976,531,498	908,406,104	1,405,170,686	5,290,108,288
Less - Allowance for expected credit losses(ECL)	(48,332,500)	(38,204,170)	(249,240,449)	(335,777,119)
<b>Total</b>	<b>2,928,198,998</b>	<b>870,201,934</b>	<b>1,155,930,238</b>	<b>4,954,331,169</b>

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## 20. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES (CONTD.)

### 20.1.2 Analysis by Currency

As at 31st March	2022 LKR	2021 LKR
Sri Lankan Rupee	5,463,463,569	5,290,108,288
<b>Gross total</b>	<b>5,463,463,569</b>	<b>5,290,108,288</b>

### 20.1.3 Analysis by Industry

Agriculture & Fishing	2,223,347,911	1,256,445,138
Manufacturing	322,348,247	459,120,582
Tourism	23,115,059	27,023,661
Transport	9,287,478	13,448,111
Constructions	879,941,218	1,759,097,180
Trades	243,311,618	329,331,237
New Economy	4,770,773	5,968,995
Financial and Business Services	7,359,446	25,248,299
Infrastructure	31,472,375	40,908,825
Government	-	-
Other Services	1,718,509,443	1,373,516,260
<b>Gross total</b>	<b>5,463,463,569</b>	<b>5,290,108,288</b>

### 20.2 Movement in gross loan and receivables during the year (Under SLFRS 9)

As at 31st March 2022	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross carrying amount as at 1st April 2021	2,976,531,498	908,406,104	1,405,170,686	5,290,108,288
New assets originated or purchased	5,096,031,378	-	-	5,096,031,378
Assets derecognised or repaid (excluding write offs)	(3,072,058,840)	(987,126,076)	(754,550,122)	(4,813,735,039)
Transfers to Stage 1	207,674,487	(145,245,767)	(62,428,720)	-
Transfers to Stage 2	(1,298,692,760)	1,345,034,730	(46,341,970)	-
Transfers to Stage 3	(518,208,093)	(434,790,778)	952,998,871	-
Amounts written off	-	-	(108,941,059)	(108,941,059)
<b>Gross carrying amount as at 31st March 2022</b>	<b>3,391,277,669</b>	<b>686,278,213</b>	<b>1,385,907,686</b>	<b>5,463,463,569</b>

### 20.3 Movement in gross loan and receivables during the year (Under SLFRS 9)

As at 31st March 2021	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross carrying amount as at 1st April 2020	3,995,438,202	499,300,873	1,040,490,640	5,535,229,714
New assets originated or purchased	2,367,389,544	-	-	2,367,389,544
Assets derecognised or repaid (excluding write offs)	(2,561,050,513)	(24,167,668)	(27,292,788)	(2,612,510,970)
Transfers to Stage 1	115,759,573	(89,752,105)	(26,007,468)	-
Transfers to Stage 2	(688,387,692)	766,680,870	(78,293,178)	-
Transfers to Stage 3	(252,617,616)	(243,655,864)	496,273,480	-
Amounts written off	-	-	-	-
<b>Gross carrying amount as at 31st March 2021</b>	<b>2,976,531,498</b>	<b>908,406,104</b>	<b>1,405,170,686</b>	<b>5,290,108,288</b>

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## 21. FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLES

### Accounting Policy >>

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are recognised on the statement of financial position. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Lease rental receivable include financial assets measured at amortized cost if both following conditions are made ;

- Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
- Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding

After initial measurement, lease rental receivable is subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of Profit or Loss.

As at 31st March	Note	Page	2022 LKR	2021 LKR
<b>Lease Rentals Receivable</b>				
Gross Lease Rentals Receivables			7,124,329,857	4,403,506,362
Less: Unearned Income			(2,158,515,690)	(1,312,510,230)
<b>Total Lease Rentals Receivables</b>			<b>4,965,814,166</b>	<b>3,090,996,132</b>
(Less): Allowance for Impairment Charges	22.1	210	(197,647,170)	(138,628,108)
<b>Net Lease Rentals Receivables</b>			<b>4,768,166,996</b>	<b>2,952,368,025</b>

### 21.1 Analysis

#### 21.1.1 Analysis by stage wise

As at 31st March 2022	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Collective Impaired loans and receivables	3,584,322,392	896,035,111	485,456,663	4,965,814,166
Less - Allowance for expected credit losses (ECL)	(69,828,019)	(46,924,868)	(80,894,283)	(197,647,170)
	3,514,494,374	849,110,244	404,562,379	4,768,166,997

As at 31st March 2021	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Collective Impaired loans and receivables	2,208,157,150	598,838,282	284,000,701	3,090,996,132
Less - Allowance for expected credit losses (ECL)	(36,738,447)	(31,477,149)	(70,412,512)	(138,628,108)
	2,171,418,703	567,361,132	213,588,189	2,952,368,025

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## FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLES (CONTD.)

### 21.1.2 Analysis by Currency

As at 31st March	2022 LKR	2021 LKR
Sri Lankan Rupee	4,965,814,166	3,090,996,132
<b>Gross total</b>	<b>4,965,814,166</b>	<b>3,090,996,132</b>

### 21.1.3 Analysis by Industry

As at 31st March	2022 LKR	2021 LKR
Agriculture & Fishing	3,553,462,141	1,469,891,556
Manufacturing	326,592,322	509,884,958
Tourism	1,708,710	3,046,055
Transport	108,823,916	112,156,453
Constructions	34,277,312	28,577,015
Trades	18,134,474	17,503,373
New Economy	1,601,784	7,686,757
Financial and Business Services	1,272,963	1,852,509
Infrastructure	731,825	683,205
Other Services	919,208,720	939,714,250
<b>Gross total</b>	<b>4,965,814,166</b>	<b>3,090,996,132</b>

### 21.2 Maturity of Lease Rentals Receivables

As at 31st March 2022	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Gross Lease Rental Receivables	2,638,938,949	4,485,390,908	-	7,124,329,857
Less: Unearned Income	(855,143,019)	(1,303,372,672)	-	(2,158,515,690)
<b>Total Lease Rental Receivables</b>	<b>1,783,795,930</b>	<b>3,182,018,236</b>	<b>-</b>	<b>4,965,814,166</b>
(Less): Allowance for Impairment Charges	(75,648,907)	(121,998,263)	-	(197,647,170)
<b>Net Lease Rentals Receivables</b>	<b>1,708,147,023</b>	<b>3,060,019,973</b>	<b>-</b>	<b>4,768,166,996</b>

### 21.3 Maturity of Lease Rentals Receivables

As at 31st March 2021	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Gross Lease Rental Receivables	1,456,789,309	2,946,717,053	-	4,403,506,362
Less: Unearned Income	(378,905,381)	(933,604,849)	-	(1,312,510,230)
<b>Total Lease Rental Receivables</b>	<b>1,077,883,928</b>	<b>2,013,112,204</b>	<b>-</b>	<b>3,090,996,132</b>
(Less): Allowance for Impairment Charges	(75,648,907)	(62,979,201)	-	(138,628,108)
<b>Net Lease Rentals Receivables</b>	<b>1,002,235,021</b>	<b>1,950,133,004</b>	<b>-</b>	<b>2,952,368,025</b>

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## 21.4 Movement in gross lease rental receivables during the year (Under SLFRS 9)

As at 31st March	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross carrying amount as at 1st April 2021	2,208,157,150	598,838,282	284,000,701	3,090,996,132
New assets originated or purchased	2,977,549,093	-	-	2,977,549,093
Assets derecognised or repaid (excluding write offs)	(749,873,126)	(256,334,338)	(96,523,595)	(1,102,731,059)
Transfers to Stage 1	100,407,534	(77,493,254)	(22,914,280)	-
Transfers to Stage 2	(764,618,519)	783,097,443	(18,478,924)	-
Transfers to Stage 3	(187,299,740)	(152,073,021)	339,372,761	-
Amounts written off	-	-	-	-
Gross carrying amount as at 31st March 2022	3,584,322,392	896,035,111	485,456,663	4,965,814,166

## 21.5 Movement in gross lease rental receivables during the year (Under SLFRS 9)

As at 31st March	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross carrying amount as at 1st April 2020	1,337,147,298	287,950,597	160,417,730	1,785,515,624
New assets originated or purchased	2,013,775,387	-	-	2,013,775,387
Assets derecognised or repaid (excluding write offs)	(648,000,373)	(45,273,916)	(15,020,590)	(708,294,879)
Transfers to Stage 1	87,794,985	(75,612,275)	(12,182,710)	-
Transfers to Stage 2	(460,454,323)	499,701,784	(39,247,461)	-
Transfers to Stage 3	(122,105,823)	(67,927,909)	190,033,732	-
Amounts written off	-	-	-	-
Gross carrying amount as at 31st March 2021	2,208,157,150	598,838,282	284,000,701	3,090,996,132

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## 22. ALLOWANCE FOR IMPAIRMENT CHARGES

### Accounting Policy >>

#### Overview of the expected credit loss (ECL) principles

The Company recognises expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

Stage 01 When loans are first recognised, the Company recognises an allowance based on 12mECLs. Stage 01 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 02.

Stage 02 When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 02 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 03.

Stage 03: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

#### The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

PD The probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise expected draw downs on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The mechanism of the ECL method are summarised below.

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

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#### Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to Income Statement. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

#### Forward looking information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- GDP Growth (%)
- Inflation (YoY Average)
- Interest Rate (PLR)
- Unemployment (% of Labor Force)

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

#### Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

#### Renegotiated Loans

The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan renegotiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

From 1 April 2019, when the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 45.2 The Company also considers whether the assets should be classified as Stage 3.

#### Write-off of Financial Assets at Amortised Cost

Financial assets and the related impairment allowance accounts are normally written-off when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

#### Collateral Valuation

Revaluation of immovable properties obtained as collaterals against any accommodation granted are assessed based on the requirements in the Direction No 04 of 2018 on 'Valuation of Immovable Properties' and subsequent amendments thereto issued by the Central Bank of Sri Lanka (CBSL). The assessment of immovable properties is carried out by independent professional valuers as required by the said direction issued by CBSL.

The assessed fair value of the immovable properties does not consider for measurement of regulatory provisions for bad and doubtful debts as per Direction No 03 of 2006 and subsequent amendments thereto issued by CBSL.

#### Collateral repossessed

The Company's accounting policy under SLFRS 9 remains same as it was under LKAS 39. The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

#### Non-Accrual Receivables

Cessation of Interest income recognition is triggered out when the receivables are more than six months in arrears, receivables are subject to legal action/ongoing legal action, receivables are subject to untraceable or unattainable collaterals, or receivables are determined to be uncollectible. For receivables in non-accrual status, subsequent financing revenue is recognised only to the extent a payment is received. Payments are generally applied first to outstanding interest and then to the unpaid principal balance.

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## 22.1 Allowance for Impairment Charges for Loans and Receivables

	2022			2021		
	On Loan Receivable LKR	On Lease Rental Receivable LKR	Total LKR	On Loan Receivable LKR	On Lease Rental Receivable LKR	Total LKR
<b>Balance as at Beginning of the Year</b>	335,777,119	138,628,108	474,405,227	293,289,609	130,230,964	423,520,573
Charge for the Year	126,032,416	59,019,063	185,051,479	42,487,510	8,397,144	50,884,654
Amounts Written Off	(108,941,059)	-	(108,941,059)	-	-	-
Balance as at End of the Year	352,868,476	197,647,170	550,515,647	335,777,119	138,628,108	474,405,227
Individual Impairment	-	-	-	-	-	-
Collective Impairment	352,868,476	197,647,170	550,515,647	335,777,119	138,628,108	474,405,227
<b>Total</b>	<b>352,868,476</b>	<b>197,647,170</b>	<b>550,515,647</b>	<b>293,289,609</b>	<b>138,628,108</b>	<b>431,917,717</b>

## 22.2 Movement in allowance for expected credit losses

As at 31st March 2022	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at 01st April 2021	85,070,947	69,681,319	319,652,961	474,405,227
Charge/(Reversal) to income statement	49,731,028	8,459,600	126,860,852	185,051,479
Write-off during the year	-	-	(108,941,059)	(108,941,059)
<b>Balance as at 31st March 2022</b>	<b>134,801,974</b>	<b>78,140,919</b>	<b>337,572,753</b>	<b>550,515,647</b>

As at 31st March 2021	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at 01st April 2020	75,311,119	70,156,231	278,053,224	423,520,573
Charge/(Reversal) to income statement	9,759,828	(474,911)	41,599,737	50,884,654
Write-off during the year	-	-	-	-
<b>Balance as at 31st March 2021</b>	<b>85,070,947</b>	<b>69,681,319</b>	<b>319,652,961</b>	<b>474,405,227</b>

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## 22.3 Stage Movement in Allowance for Impairment Losses

As at 31st March 2022	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
ECL amount as at 1st April 2021	85,070,947	69,681,319	319,652,960	474,405,227
New assets originated or purchased	143,285,218	-	-	143,285,218
Assets derecognised or repaid (excluding write offs)	(8,238,546)	(8,200,773)	58,195,650	41,756,330
Transfers to Stage 1	5,296,375	(3,537,070)	(1,759,305)	-
Transfers to Stage 2	(49,305,936)	53,178,885	(3,872,949)	-
Transfers to Stage 3	(42,232,976)	(30,020,495)	72,253,471	-
Amounts written off	-	-	(108,931,128)	(108,931,128)
<b>ECL amount as at 31st March 2022</b>	<b>133,875,081</b>	<b>81,101,866</b>	<b>335,538,699</b>	<b>550,515,647</b>

## 22.4 Stage Movement in Allowance for Impairment Losses

As at 31st March 2021	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
ECL amount as at 1st April 2020	177,644,445	67,549,363	178,326,756	423,520,564
New assets originated or purchased	81,985,773	-	-	81,985,773
Assets derecognised or repaid (excluding write offs)	(19,240,503)	(8,472,008)	(3,388,600)	(31,101,110)
Transfers to Stage 1	5,141,617	(4,231,080)	(910,536)	-
Transfers to Stage 2	(32,145,523)	38,892,076	(6,746,553)	-
Transfers to Stage 3	(128,314,862)	(24,057,031)	152,371,893	-
<b>Gross carrying amount as at 31st March 2021</b>	<b>85,070,947</b>	<b>69,681,319</b>	<b>319,652,960</b>	<b>474,405,227</b>

## 23. OTHER NON FINANCIAL ASSETS

### Accounting Policy >>

The Company classifies all non-financial assets other than Intangible Assets, Property, Plant & Equipment and Deferred Tax Assets under other non-financial assets. Other non-financial assets, include inventories, other advance, rent deposit and other receivable amounts. These assets are non-interest earning and recorded at the amounts that are expected to be received. Prepayments that form a part of other receivable are amortized during the period in which it is utilized.

	2022 LKR	2021 LKR
Inventories	2,777,352	2,773,721
Rent Deposit	17,607,500	17,217,500
Other Receivable	141,737,651	79,234,956
<b>Total Other Non Financial Assets</b>	<b>162,122,503</b>	<b>99,226,178</b>

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## 24. INVESTMENT PROPERTY

### Accounting Policy >>

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. An investment property is recognised, if it is probable that future economic benefits that are associated with the investment property will flow to the Company and cost of the investment property can be reliably measured.

Investment properties are initially recognised at cost. Subsequent to initial recognition the investment properties are stated at fair values, which reflect market conditions at the Statement of Financial Position date. Gains or losses arising from changes in fair value are included in the Statement of Other Comprehensive Income in the year in which they arise. "

### Derecognition

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Statement of Profit or Loss in the year of retirement or disposal.

### Subsequent transfers to/from investment property

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development.

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

### Fair value of investment property

"Investment property of the Company is reflected at fair value. When current market prices of similar assets are available, such evidences are considered in estimating fair values of these assets. In the absence of such information, the Company determines within a reasonable fair value estimates, amounts that can be attributed as fair values, taking into consideration of the discounted cash flow projections based on the estimates, derived from the evidence such as current market rents for similar properties and using discount rates that reflect uncertainty in the amount and timing of cash flows."

### Determining fair value

External and independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment property portfolio every year. In financial periods within that period the fair value is determined by the board of directors. The fair values are based on market values, being the value in use or estimated amount for which a property could be sold in an orderly transaction between market participants at the measurement date.

### Owner occupied properties and investment property

In determining if a property qualifies as Investment Property the Company makes a judgment whether the property generates independent cash flows rather than cash flows that are attributable not only to the property but also other assets. Judgment is also applied in determining if ancillary services are significant, so that a property does not qualify as investment property.

### Borrowing cost

There were no capitalised borrowing cost related to the acquisition of Investment properties during the year 2022 (2021 - Nil).

As at 31st March	2022 LKR	2021 LKR
Balance as at 1 April	215,678,750	126,094,500
Transfer from during the year	-	-
Gain from fair value adjustment	18,578,750	89,584,250
<b>Balance as at 31 March</b>	<b>234,257,500</b>	<b>215,678,750</b>

The Company has recorded rent income for year ended 31 March 2022 Rs 8,290,200/- ( 2021 - Rs 8,305,200/-) and not incurred any repair and maintenance expenses on behalf of the property.

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## 24.1 Information on investment properties of the Company - Valuations

Property	Method of valuation	Effective date of valuation	Significant unobservable inputs ( Level 3)	Sensitivity of fair value to unobservable inputs	Carrying value of the investment property before fair valuation	Fair value of the investment property	"Fair value gains/(losses) recognised in Income Statement"
No 45, Rawathwatta Road, Moratuwa	Market comparable method	31-Mar-22	Estimated price per perch LKR 2,000,000/- (Land Extent - 48.69 perches)	Positively correlated sensitivity	Land LKR 63,900,000 Building LKR 56,340,000	Land LKR 97,380,000 Building LKR 136,977,500	Land LKR NA Building LKR 18,578,750

## 24.2 Information on investment properties of the Company - Extents and Locations

Property	Number of Building	Extent (Perches)	Building (Square feet)	"Fair value of the investment property - Land"	"Fair value of the investment property - Building"	"Carrying value of the investment property before fair valuation - Land"	"Carrying value of the investment property before fair valuation - Building"
No 45, Rawathwatta Road, Moratuwa	1	48.69	14,650	97,380,000	136,977,500	56,340,000	63,900,000

## 24.3 Valuation techniques and sensitivity of the fair value measurement of the Investment properties of the Group

Valuation Technique	Significant unobservable valuation inputs (ranges of each property are given in the table above)	"Fair value of the investment property -Building"
Market comparable method This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land Price per square foot for building Depreciation rate for building	Estimated fair value would increase/ (decrease) if; Price per perch of land would increase/(decrease) Price per square foot for building would increase/ (decrease) Depreciation rate for building would (decrease)/increase

## 24.4 Details about valuer

Market valuation of the above investment property was carried out as at 31 March 2022 by Mr A.D.N.Dharmaratne, FRICS (Eng), who is independent valuer not connected with the Company.

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## 25. PROPERTY, PLANT & EQUIPMENT

### Accounting Policy >>

#### Basis of Recognition

Property, plant & equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

#### Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the assets and subsequent cost as explained below. The cost of self-constructed assets includes the cost of the materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for its intended use and cost of dismantling and removing the old items and restoring site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalized as part of computer equipment.

#### Cost Model

The Company applies the 'Cost Model' to all property, plant & equipment other than free hold land and building and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

#### Revaluation Model

The Company applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at revalued amounts, being their fair value at the date reporting date, less any subsequent accumulated depreciation on land and buildings and any accumulated impairment losses charged subsequent to the date of the valuation.

Freehold land and buildings of the Company are revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

The Company engages an Independent Valuer to determine the fair value of free hold land and buildings. In estimating the fair values, the Independent Valuer considers current market prices of similar assets.

During the current financial year, the Company revalued its freehold lands and buildings.

#### Subsequent Cost

These are costs that are recognized in the carrying amount of an item if it is probable that the future economic benefits embodied within that part will flow to the Company and it can be reliably measured.

#### Repairs and Maintenance

Repairs and Maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

#### Derecognition

An item of property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss in the year the asset is derecognized.

#### Useful Life Time of Property, Plant & equipment and Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

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The Company review the residual values, useful lives and methods of depreciation of property, plant & equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

The estimated useful lives of the assets for the year ended 31 March 2022 and 2021, are as follows:

Assets Category	Useful Life
Buildings	40 Years
Office Equipment	5 Years
Computer Equipment	5 Years
Furniture & Fittings	10 Years
Plant & Machinery	8 Years
Motor Vehicles	5 Years

The depreciation rates are determined separately for each significant part of assets and depreciation is provided proportionately for the completed number of days the asset is in use, if it is purchased or sold during the financial year. Depreciation methods, useful lives and residual values are reassessed at each reporting date and is adjusted, as appropriate.

### 25.1 The Movement in Property, Plant & Equipment

As at 31st March 2022	Land LKR	Furniture & Fittings LKR	Office Equipment LKR	Computer Equipment LKR	Plant & Machinery LKR	Motor Vehicle LKR	Total LKR
<b>Cost or Valuation</b>							
<b>Balance as at 1 April 2021</b>	36,100,000	111,403,920	81,398,442	78,983,017	48,848,170	42,753,322	<b>399,486,871</b>
Additions during the year	-	3,439,232	3,680,854	6,709,950	-	-	<b>13,830,036</b>
Adjustments on Physically Verified Assets	-	(10,338,888)	(12,974,993)	803,365	1,524,673	-	<b>(20,985,843)</b>
Disposal during the year	(203,127)	(468,805)	-	(208,040)	-	(879,971)	-
<b>Balance as at 31 March 2022</b>	<b>36,100,000</b>	<b>104,301,137</b>	<b>71,635,498</b>	<b>86,496,333</b>	<b>50,164,803</b>	<b>42,753,322</b>	<b>391,451,093</b>
(Less) : Accumulated depreciation	-	-	-	-	-	-	-
<b>Balance as at 1 April 2021</b>	-	53,802,867	56,611,353	72,419,572	25,503,645	30,265,065	<b>238,602,502</b>
Charge during the year	-	10,933,037	7,713,139	3,821,630	5,747,674	5,212,963	<b>33,428,444</b>
Adjustments on Physically Verified Assets	-	(7,339,880)	(13,428,260)	273,231	1,356,190	-	<b>(19,138,719)</b>
Disposal during the year	-	(152,668)	(393,016)	-	(163,041)	-	<b>(708,726)</b>
<b>Balance as at 31 March 2022</b>	-	<b>57,243,356</b>	<b>50,503,216</b>	<b>76,514,378</b>	<b>32,444,523</b>	<b>35,478,029</b>	<b>252,183,501</b>
<b>Net book value at 31 March 2022</b>	<b>36,100,000</b>	<b>47,057,781</b>	<b>21,132,282</b>	<b>9,981,955</b>	<b>17,720,280</b>	<b>7,275,294</b>	<b>139,267,592</b>

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## 25. PROPERTY, PLANT & EQUIPMENT (CONTD.)

As at 31st March 2021	Land LKR	Furniture & Fittings LKR	Office Equipment LKR	Computer Equipment LKR	Plant & Machinery LKR	Motor Vehicle LKR	Total LKR
<b>Cost or Valuation</b>							
Balance as at 1 April 2020	18,050,000	100,793,390	70,643,488	80,814,729	40,720,781	42,753,322	353,775,709
Additions during the year	-	11,434,660	13,268,800	1,064,888	8,127,389	-	33,895,737
Adjustments on Revaluation	18,050,000	-	-	-	-	-	18,050,000
Disposal during the year	(824,129)	(2,513,844)	(2,896,601)	-	-	(6,234,574)	-
<b>Balance as at 31 March 2021</b>	<b>36,100,000</b>	<b>111,403,921</b>	<b>81,398,444</b>	<b>78,983,016</b>	<b>48,848,170</b>	<b>42,753,322</b>	<b>399,486,871</b>

(Less) : Accumulated depreciation

Balance as at 1 April 2020	-	43,956,994	50,128,330	70,233,944	19,925,842	23,262,559	207,507,669
Charge during the year	-	10,455,989	8,996,299	5,069,968	5,577,803	7,002,506	37,102,566
Adjustments on Revaluation	-	-	-	-	-	-	-
Disposal during the year	-	(610,115)	(2,513,277)	(2,884,340)	-	-	(6,007,732)
<b>Balance as at 31 March 2021</b>	<b>-</b>	<b>53,802,868</b>	<b>56,611,352</b>	<b>72,419,572</b>	<b>25,503,645</b>	<b>30,265,065</b>	<b>238,602,502</b>

<b>Net book value at 31 March 2021</b>	<b>36,100,000</b>	<b>57,601,053</b>	<b>24,787,092</b>	<b>6,563,444</b>	<b>23,344,525</b>	<b>12,488,257</b>	<b>160,884,369</b>
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### 25.1.4 Property, Plant & Equipments Acquired During the Financial Year

During the financial year, the Company acquired property, plant & equipments to the aggregate value of LKR 13,830,036/- (2021 - LKR 33,895,737/-) Cash payment amounting to LKR 13,830,036/- (2021 - Rs 33,895,737/-) was paid during the year for purchase of property, plant & equipment.

### 25.1.5 Fully-depreciated property, plant & equipment

The initial cost of fully-depreciated property, plant & equipment, which are still in active use as at reporting date is LKR 133,799,961/- (2021 - LKR 101,793,852/-)

## 25.2 Fair value related disclosures of Freehold land

Property	Date of valuation	Method of valuation and Significant unobservable inputs	Land extent (perches)	Number of Building	Cost 2022	Cost 2021	Fair value 2022 LKR	Fair value 2021 LKR
No 45, Rawathwatta Road, Moratuwa	31/03/2022	" Market Comparable Method Estimated price per perch LKR 2,000,000/-"	18.05	-	LKR 10,830,000	LKR 10,830,000	Land LKR 36,100,000	Land LKR 36,100,000

Market valuation of the above Land & Buildings was carried out by Mr A.D.N.Dharmaratne, FRICS (Eng), who is independent valuer not connected with the Company. Investment method, Contractor's Test method and Comparison method have been used for the valuation. Freehold land and buildings of the Company are considered under Level 3 of fair value hierarchy.

## 25.3 Title Restriction on Property, Plant and Equipment

There were no restrictions on the title of Property, Plant and Equipment as at 31 March 2022 and 31 March 2021.

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## 25.4 Compensation from Third Parties for items of Property, Plant and Equipment

There were no compensation received during the year from third parties for items of Property, Plant and Equipment that were impaired, lost or given up. (2021: Nil)

## 25.5 Temporarily Idle of Property, Plant and Equipment

There were no Property, Plant and Equipment idle as at 31 March 2022 and 31 March 2021.

## 25.6 Property, Plant and Equipment Retired from Active Use

There were no Property, Plant and Equipment retired from active use as at 31 March 2022 and 31 March 2021.

## 26. RIGHT-OF-USE ASSETS

### Accounting Policy >>

#### Measurement Basis

Right-of-use assets are recognised at the commencement of the lease at the present value of the lease payment plus any prepaid lease rental.

#### Amortisation

The Company amortised right-of-use assets, using the straight line method over their estimated useful lives.

Prepaid lease rentals paid to acquire land use rights are amortised over the lease term in accordance with the pattern of benefits provided. Leasehold property comprising of land use rights and is amortised on a straight line basis over the remaining lease term.

#### Determination of the lease term for the lease contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company has several lease contracts for branches/head office that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate.

As at 31st March	2022 LKR	2021 LKR
<b>Cost</b>		
Balance as at 1 April	270,687,415	234,374,877
Additions during the year	59,438,409	41,770,515
Less - Adjustment on Subsequent changes in initial agreement	(7,076,263)	(5,457,977)
Less - Disposal during the year	(1,601,410)	-
<b>Balance as at March</b>	<b>321,448,151</b>	<b>270,687,415</b>
<b>Accumulated Depreciation</b>		
Balance as at 1 April	127,875,071	64,930,508
Charges for the year	64,217,824	62,944,563
Less - Disposal during the year	(177,934)	-
<b>Balance as at March</b>	<b>191,914,960</b>	<b>127,875,071</b>
<b>Carrying Amount as at 31 March</b>	<b>129,533,191</b>	<b>142,812,343</b>

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## 27. INTANGIBLE ASSETS

### Accounting Policy >>

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the supply of services, for rental to others or for administrative purposes.

### Basis of recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

### Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### Useful economic lives, amortization and impairment

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates in accordance with LKAS 8. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss in the expense category consistent with the function of the intangible asset.

The unamortised balances of intangible assets with finite lives are reviewed for impairment annually and whenever there is an indication for impairment and recognised in Statement of Profit or Loss to the extent that they are no longer probable of being recovered from the expected future benefits.

### 27.1 Software

All computer software costs incurred, licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the 'Statement of Financial Position' under the category 'intangible assets' and carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the year ended 31 March 2022 and 2021 is given below.

Description	Year
Computer software	3 Years
Computer software - E-Finance	5 Years

### Derecognition

Intangible assets are derecognized on disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset is included in the Statement of Profit or Loss in the year the asset is derecognized.

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## 27.2 Computer Software

As at 31st March	2022 LKR	2021 LKR
<b>Cost</b>		
<b>Balance as at 1 April</b>	<b>59,398,736</b>	59,398,736
Additions during the year	2,820,000	-
Disposal during the year	-	-
<b>Balance as at 31 March</b>	<b>62,218,736</b>	59,398,736
<b>Amortisation &amp; Impairment</b>		
<b>Balance as at 1 April</b>	<b>54,343,448</b>	44,287,613
Charge for the year	2,947,501	10,055,835
Disposal during the year	-	-
<b>Balance as at 31 March</b>	<b>57,290,949</b>	54,343,448
<b>Net book value as at end of the year</b>	<b>4,927,786</b>	5,055,287

Intangible assets include fully amortised software amounting to LKR 45,98 Mn as at 31 March 2022 (LKR 13.27Mn as at 31 March 2021), which are still in use as at the reporting date.

## 28. DUE TO BANKS & OTHER INSTITUTIONS

### Accounting Policy >>

Due to banks include bank and other institutional borrowings and bank overdrafts. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. EIR is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. Interest paid/payable on these dues are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

As at 31st March	Note	Page No.	2022 LKR	2021 LKR
Bank Overdrafts	28.1	220	333,252,403	227,209,135
Loans and Other Bank Facilities	28.2	220	1,963,941,475	1,481,187,982
Interest Payable on Bank Facilities			22,990,951	21,226,993
<b>Total Due to Banks &amp; Other Institution</b>			<b>2,320,184,829</b>	1,729,624,109

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## 28. DUE TO BANKS & OTHER INSTITUTIONS (CONTD.)

### 28.1 Bank Overdraft

The outstanding balances of bank overdrafts as at the Statement of Financial Position date are fully secured by Loan & Receivables and the Company has full utilised Bank Overdraft as at 31 March 2022 (unutilised 2021 - LKR 57,613,963 /-).

As at 31 March 2022	As at 01.04.2021 LKR	Loans Obtained LKR	Repayment LKR	As at 31.03.2022 LKR
<b>28.2 Loans and Other Bank Facilities</b>				
NDB Term Loan	716,800,000	250,000,000	(442,566,667)	524,233,333
HNB Term Loan	274,800,000	250,000,000	(138,000,000)	386,800,000
SDB Term Loan	205,688,930	-	(205,688,930)	-
Sampath Bank Term Loan	5,782,348	-	(779,088)	5,003,260
Cargills Bank Term Loan	-	350,000,000	(62,496,000)	287,504,000
Seylan Bank	-	200,000,000	-	200,000,000
Securitisation Loan	248,500,000	500,000,000	(218,100,000)	530,400,000
Rotary Loan	23,554,754	10,350,000	9,965,823	23,938,931
Other Borrowings	6,061,950	-	-	6,061,950
<b>Total Loans and Other Bank Facilities</b>	<b>1,481,187,982</b>	<b>1,560,350,000</b>	<b>(1,077,596,507)</b>	<b>1,963,941,475</b>

As at 31 March 2021	As at 01.04.2020 LKR	Loans Obtained LKR	Repayment LKR	As at 31.03.2021 LKR
<b>Loans and Other Bank Facilities</b>				
NDB Term Loan	710,000,000	375,000,000	(368,200,000)	716,800,000
HNB Term Loan	337,500,000	300,000,000	(362,700,000)	274,800,000
SDB Term Loan	300,000,000	300,000,000	(394,311,070)	205,688,930
Sampath Bank Term Loan	-	6,308,000	(525,652)	5,782,348
Securitisation Loan	-	300,000,000	(51,500,000)	248,500,000
Rotary Loan	20,814,455	11,700,000	(8,959,702)	23,554,753
Other Borrowings	5,961,950	100,000	-	6,061,950
<b>Total Loans and Other Bank Facilities</b>	<b>1,374,276,405</b>	<b>1,293,108,000</b>	<b>(1,186,196,424)</b>	<b>1,481,187,982</b>

### 28.3 Contractual Maturity Analysis of Due to Bank & Other Institution

As at 31 March 2022	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
NDB Term Loan	234,233,333	290,000,000	-	524,233,333
HNB Term Loan	175,800,000	211,000,000	-	386,800,000
Sampath Bank Term Loan	786,141	4,217,120	-	5,003,260
Cargills Bank Term Loan	228,400,000	59,104,000	-	287,504,000
Seylan Bank	14,826,549	185,173,451	-	200,000,000
Securitisation Loan	-	524,338,050	6,061,950	530,400,000
Rotary Loan	21,226,993	2,711,938	-	23,938,931
Other Borrowings	-	-	6,061,950	6,061,950
Bank Overdrafts	83,252,403	250,000,000	-	333,252,403
Interest Payable on Bank Facilities	22,990,951	-	-	22,990,951
<b>Total Due to Customers</b>	<b>781,516,371</b>	<b>1,526,544,558</b>	<b>12,123,900</b>	<b>2,320,184,829</b>

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## 28.3 Contractual Maturity Analysis of Due to Bank & Other Institution

As at 31st March 2021	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
NDB Term Loan	246,800,000	470,000,000	-	716,800,000
HNB Term Loan	125,400,000	149,400,000	-	274,800,000
SDB Term Loan	205,688,930	-	-	205,688,930
Sampath Bank Term Loan	696,049	5,086,299	-	5,782,348
Securitisation Loan	182,100,000	66,400,000	-	248,500,000
Rotary Loan	9,031,653	14,523,101	-	23,554,754
Other Borrowings	-	-	6,061,950	6,061,950
Bank Overdrafts	21,226,993	205,982,142	-	227,209,135
Interest Payable on Bank Facilities	21,226,993	-	-	21,226,993
<b>Total Due to Customers</b>	<b>812,170,618</b>	<b>911,391,542</b>	<b>6,061,950</b>	<b>1,729,624,110</b>

Granted Date	Granted Date	Facility Amount	Period	Interest rate	Security status
NDB Term Loan	26/09/2017 - 28/04/2021	1,216,800,000	1 - 5 Years	Variable	Lease & SME portfolio
HNB Term Loan	27/09/2018 - 21/12/2021	700,000,000	3 - 5 Years	Variable	Business Loans, Miro Loans, Lease & SME Loans
Sampath Bank Term Loan	12/06/2020 - 09/09/2020	6,308,000	7 Years	Fixed	Solar Panels
Cargills Bank Term Loan	30/06/2021 - 10/02/2021	350,000,000	3 Years	Variable	Lease receivables
Seylan Bank	02/03/2022	200,000,000	4 Years	Variable	Lease receivables
Securitisation Loan	30/07/2020 - 17/06/2021	800,000,000	2 - 3 Years	Variable	Lease receivables
Rotary Loan	30/04/2019 - 11/03/2022	36,244,489	3 Years	Fixed	NA

## 29. FINANCIAL LIABILITY AT AMORTISED COST - DUE TO CUSTOMERS

### Accounting Policy >>

Due to other customers include non-interest bearing deposits, savings deposits, term deposits and other deposits. Subsequent to initial recognition, deposits are measured at their amortized cost using the EIR method. EIR is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. Interest paid/payable on deposits are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

### Sri Lanka Deposit Insurance And Liquidity Support Scheme

Under the Direction No. 2 of 2010 Finance Companies (Insurance of Deposit Liabilities) issued by the Central Bank of Sri Lanka, all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme implemented by the Monetary Board for compensation up to a maximum of LKR 1,000,000/- for each depositor. The Company has paid LKR 6,019,843/- as the premium of the said Insurance scheme during the financial year under review (2021 - LKR 6,605,953/-).

As at 31 March	2022 LKR	2021 LKR
Fixed Deposits	3,428,284,134	3,306,652,431
Savings Deposits	1,300,812,985	1,245,292,752
<b>Total Due to Customers</b>	<b>4,729,097,119</b>	<b>4,551,945,183</b>

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## 29.1 Contractual Maturity Analysis Of Customer Deposits

As at 31st March 2022	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Fixed Deposits	2,794,427,704	633,856,430	-	3,428,284,134
Savings Deposits	1,123,179,418	110,828,711	66,804,856	1,300,812,985
<b>Total Due to Customers</b>	<b>3,917,607,122</b>	<b>744,685,141</b>	<b>66,804,856</b>	<b>4,729,097,119</b>

As at 31st March 2021	Within One Year LKR	1 - 5 Years LKR	Over 5 Years LKR	Total LKR
Fixed Deposits	2,660,979,972	645,672,460	-	3,306,652,431
Savings Deposits	1,038,516,344	124,704,047	82,072,361	1,245,292,752
<b>Total Due to Customers</b>	<b>3,699,496,316</b>	<b>770,376,507</b>	<b>82,072,361</b>	<b>4,551,945,183</b>

We have raised fixed deposits with a pre-termination option to the customers; hence, fixed deposit pre-terminations may cause actual maturities to differ from contractual maturities.

## 30. LEASE LIABILITY

### Accounting Policy >>

The Company recognises lease liabilities measured at present value of lease payments to be made over the lease term at the commencement date of the lease. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments.

As at 31st March	2022 LKR	2021 LKR
Balance as at 1 April	161,198,954	171,735,097
Less-Adjustment on COVID 19 Concession	(7,347,681)	(5,457,977)
Additions during the year	59,438,409	41,770,515
Interest Expenses	17,805,589	23,920,090
Payments during the year	(79,694,785)	(70,768,771)
Early termination of lease	(1,448,794)	-
<b>Balance as at 31 March</b>	<b>149,951,692</b>	<b>161,198,954</b>

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## 30.1 Contractual Maturity Analysis of Lease Creditor

As at 31st March 2022	Within One Year LKR	1 - 5 Years LKR	Total LKR
Lease Liability	66,576,315	83,375,377	149,951,692
<b>Total Lease Liability</b>	<b>66,576,315</b>	<b>83,375,377</b>	<b>149,951,692</b>

As at 31st March 2021	Within One Year LKR	1 - 5 Years LKR	Total LKR
Lease Liability	72,345,672	88,853,282	161,198,954
<b>Total Lease Liability</b>	<b>72,345,672</b>	<b>88,853,282</b>	<b>161,198,954</b>

## 31. OTHER NON FINANCIAL LIABILITIES

### Accounting Policy >>

These liabilities are recorded at amounts expected to be payable at the reporting date.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Board of directors and approved by the Shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Company.

Dividend for the year that are approved after the reporting date are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standards LKAS 10 on 'Events after the Reporting Period'.

As at 31st March	Note	Page	2022 LKR	2021 LKR
Accrued Expenses			51,201,312	40,952,038
Loan and Lease Creditor			402,935,510	204,838,920
Others	31.1	223	65,982,697	34,973,732
Loan Risk Assurance Fund			1,891,844	1,787,409
Dividend Payable			74,798,026	-
			<b>596,809,388</b>	<b>282,552,100</b>

**31.1** This balance included bonus provision, unidentified direct deposit balance and the other sundry payable items.

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## 32. CURRENT TAX LIABILITIES

### Accounting Policy >>

The Company is subject to income taxes and other taxes including VAT and NBT on financial services. Significant judgment is required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Company recognized assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the income, deferred tax amounts in the period in which the determination is made.

As at 31st March	2022 LKR	2021 LKR
Balance as at 1st April	53,665,325	(1,210,738)
Provision for the year	57,567,793	81,541,883
Less: Tax paid	(90,062,673)	(9,874,664)
Tax credits (ESC/WHT)	-	(16,791,156)
<b>Balance as at 31st March</b>	<b>21,170,445</b>	<b>53,665,325</b>

### Economic Service Charges (ESC)

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006, and subsequent amendments thereto, the ESC is payable at 0.5% on "Exempt Turnover" and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years. As per Notice published dated January 1, 2020 by the Department of Inland Revenue, ESC was abolished with effect from January 01, 2020.

### Withholding tax (WHT) on fixed deposit and saving deposits

As per Section 137 of the Inland Revenue Act No. 10 of 2006 and amendments thereto, a company made Fixed Deposit and Savings Accounts interest income on which WHT had been deducted at 10% per annum at the time of payment or credited to the account. This tax deduction can be claimed as tax credit to the income tax payments. As per Section 84 of the Inland Revenue Act No. 24 of 2017, WHT on interest or discount paid to a person rate was reduced to 5% with effect from 1 April 2018. As per Notice dated February 18, 2020 published by the Department of Inland Revenue, requirement to deduct WHT has been removed effective January 1, 2020.

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## 33. POST-EMPLOYMENT BENEFIT OBLIGATIONS

### Accounting Policy >>

Employee benefit liability includes the provisions for retirement gratuity liability.

### Gratuity

The Company measures the present value of the promised retirement benefits for gratuity, which is a retirement benefit plan with the advice of an independent professional actuary using the 'Projected Unit Credit method' (PUC) as required by the Sri Lanka Accounting Standard- LKAS 19 - 'Employee Benefits'

### Basis of Measurement

The cost of the defined benefit plans (gratuity) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation is given below. In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and the Company's policy on salary revisions.

Provision has been made for retirement gratuities from the beginning of service for all employees, in conformity with Sri Lanka Accounting Standard LKAS 19 on 'Employee Benefit'. However, under the Payment of Gratuity Act No 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The plan was amended to comply with the new statutory retirement for the private sector employees by changing the Normal Retirement Age from age 55 to age 60. The change in the PVDBO is recognised immediately in the P&L.

### Recognition of Actuarial Gains and Losses

The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in other comprehensive income during the period in which it occurs.

As at 31st March	2022 LKR	2021 LKR
<b>33.1 Provision for Retirement Gratuity</b>		
Balance at 1st April	55,828,613	33,753,016
Amount Charge for the Year	20,456,300	12,491,938
Actuarial (Gains)/Losses	(3,420,601)	13,647,141
(Gain)/Loss Due to Changes in Assumptions	(32,703,154)	6,755,239
Payments Made During the Year	(8,095,000)	(10,818,721)
<b>Balance as at 31st March</b>	<b>32,066,158</b>	<b>55,828,613</b>

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As at 31st March	Note	Page	2022 LKR	2021 LKR
<b>33.2 Expenses on Defined Benefit Plan</b>				
<b>Amount recognised in the Statement of Profit or Loss</b>				
Current Service Cost for the Year			12,639,398	9,211,145
Interest Cost for the Year			4,577,946	3,280,793
Amendments on Retirement Age	33.3	226	3,238,956	-
<b>Total Amount recognised in the Statement of Profit or Loss</b>			<b>20,456,300</b>	12,491,938
<b>Amount recognised in the Statement of other Comprehensive income</b>				
Actuarial (Gains)/ Losses	33.6	226	(3,420,601)	13,647,141
(Gains)/ Losses Due to Changes in Assumptions			(32,703,154)	6,755,239
<b>Total Amount recognised in the Statement of other Comprehensive income</b>			<b>(36,123,755)</b>	20,402,380
<b>Total Expenses on Defined Benefit Plan</b>			<b>(15,667,455)</b>	32,894,318

## 33.3 Retirement Age

The plan was amended to comply with the new statutory retirement for the private sector employees by changing the Normal Retirement Age from age 55 to age 60. The change in the PVDBO is recognized immediately in the P&L.

## 33.4 Assumptions and the sensitivity of the assumptions used for the provision of retirement gratuity

An actuarial valuation of the retirement gratuity liability was carried out as at 31 March 2022 and 2021 by Messrs Piyal S Goonetilleke Associates, a professional actuary.

The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

## 33.5 Actuarial Assumptions

	2022	2021
Discount Rate	15.2%	9.7%
Salary scale	10.0%	10.0%
Staff Turnover		
20 to 30 years	10.0%	10.0%
35 years	7.5%	7.5%
40 years	5.0%	5.0%
45 years	2.5%	2.5%
50 years	1.0%	1.0%
Average Future Working Life	12.2 Years	9.5 Years
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Disability	Long Term 1987 Soc. Sec. Table.	Long Term 1987 Soc. Sec. Table.
Retirement age	Retirement age of 60 Years	Retirement age of 55 Years

## 33.6 Actuarial Gains and Losses

As per actuarial valuation, actuarial gain and loss has arisen during the year because of change in Discount rate.

## 33.7 Sensitivity of Assumptions Employed on Actuarial Valuation

Assumptions regarding discount rate and salary increment rate have a significant effect on the amounts recognised in statement of comprehensive income and statement of financial position.

The following table demonstrates the sensitivity of a reasonably possible change in such assumptions with all other variables held constant, in the actuarial valuation of the retirement gratuity as at 31 March 2022.

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Increase/(decrease) in Discount Rate	Increase/(decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income Increase/ (decrease) in Results for the year LKR	Sensitivity Effect on Pension Fund Surplus Increase / (decrease) LKR
+1%		2,507,955	2,507,955
(-1%)		(2,866,967)	(2,866,967)
	+1%	(2,902,632)	(2,902,632)
	(-1%)	2,576,291	2,576,291

## 34. DEFERRED TAX LIABILITIES

### Accounting Policy >>

Deferred tax is provided on temporary differences at the date of the Statement of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- (I) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (II) Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:
  - Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
  - Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of reporting date.

Year ended 31st March 2022	Deferred Tax Assets LKR	Deferred Tax Liabilities LKR	Statement of Profit or Loss LKR	Statement of comprehensive income LKR	Statement of changes in equity LKR
Accelerated depreciation for tax purposes	-	4,060,739	6,382,141	-	-
Finance leases	-	5,113,132	9,766,291	-	-
Right-of Use Assets	-	(40,437)	(4,372,350)	-	-
Revaluation Reserve	-	44,556,707	(4,458,900)	-	-
Defined benefit plans - Profit or loss	4,489,262	-	(4,574,754)	(4,334,851)	(4,334,851)
Impairment Provision	28,791,143	-	1,580,979	-	-
	33,280,405	53,690,141	4,323,406	(4,334,851)	(4,334,851)
Deferred tax effect on Profit or loss and other comprehensive income	-	-	4,323,406	(4,334,851)	-
Recognised under equity	-	-	-	-	(4,334,851)
Net Deferred tax liability	-	20,409,737	-	-	-

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## 34. DEFERRED TAXATION (CONTD.)

Year ended 31st March 2021	Deferred Tax Assets LKR	Deferred Tax Liabilities LKR	Statement of Profit or Loss LKR	Statement of comprehensive income LKR	Statement of changes in equity LKR
Accelerated depreciation for tax purposes	-	10,442,880	(18,177,426)	-	-
Finance leases	-	14,879,423	(1,596,778)	-	-
Right-of Use Assets	-	(4,412,787)	(5,458,611)	-	-
Revaluation Reserve	-	40,097,807	23,454,622	(4,332,000)	(4,332,000)
Defined benefit plans - Profit or loss	13,398,867	-	948,548	4,896,571	4,896,571
Impairment Provision	27,210,164	-	2,765,783	-	-
	40,609,031	61,007,323	1,936,139	564,571	564,571
Deferred tax effect on Profit or loss and other comprehensive income	-	-	1,936,139	564,571	-
Recognised under equity	-	-	-	-	564,571
Net Deferred tax liability	-	20,398,293	-	-	-

The Company applied 14% and 24% income tax rate determinate of deferred tax in 2021/22 based on the expected realization of brought forwarded deferred tax assets and liability and recognized an adjustment to deferred tax expenses amounting Rs. 17,247,836/-.

## 35. STATED CAPITAL

### Issued and Fully Paid-Ordinary shares

As at 31st March	Number of Shares	2022 LKR	Number of Shares	2021 LKR
At the beginning of the year	104,141,506	1,696,113,020	67,500,006	890,000,020
Issued during the year	45,454,546	1,000,000,012	36,641,500	806,113,000
<b>At the end of the year</b>	<b>149,596,052</b>	<b>2,696,113,032</b>	<b>104,141,506</b>	<b>1,696,113,020</b>

### 35.1 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meeting.

During the year SDF has issued 45,454,546 ordinary shares to the public as IPO and listed in the CSE as at 14 December 2021.

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## 36. RESERVES

### 36.1 Statutory Reserve Fund

The statutory Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b) of Central Bank Direction No. 1 of 2003. Accordingly, Company has transferred 5% of its net profit after taxation to the Reserve Fund as Company's Capital Funds were not less than 25% of the total deposit liabilities.

### 36.2 Revaluation Reserve Fund

The Revaluation Reserve Fund is a capital reserve which contains the revaluation surplus resulted from revaluing the Company's Property, Plant & Equipment with net of differed tax on revaluation.

Company	Statutory Reserve LKR	Revaluation Reserve LKR	Total LKR
<b>As at 01 April 2020</b>	67,406,125	42,796,761	110,202,886
Transfers to/(from) during the year	36,671,349	-	36,671,349
Revaluation of Land & Building	-	13,718,000	13,718,000
<b>As at 31 March 2021</b>	<b>104,077,474</b>	<b>56,514,761</b>	<b>160,592,235</b>
<b>As at 01 April 2021</b>	104,077,474	56,514,761	160,592,235
Transfers to/(from) during the year	10,773,312	-	10,773,312
Revaluation of Land & Building	-	-	-
<b>As at 31 March 2022</b>	<b>114,850,787</b>	<b>56,514,761</b>	<b>171,365,549</b>

## 37. RETAINED EARNINGS

As at 31st March	2022 LKR	2021 LKR
<b>Balance as at 1 April</b>	<b>324,679,970</b>	195,476,359
Profit for the Year	215,466,246	183,356,743
Other Comprehensive Income	31,788,904	(15,505,809)
Transfer to Statutory Reserves Fund	(10,773,312)	(36,671,349)
Expenses related to the Share Issue	(49,047,249)	(1,975,974)
Dividend Paid	(74,798,026)	-
<b>Balance as at 31 March</b>	<b>437,316,534</b>	324,679,970

Retained Earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

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## 38. COMMITMENTS AND CONTINGENCIES

### Accounting Policy >>

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard - LKAS 37 "Provisions contingent liabilities and Contingent Assets". Contingent Liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote.

As at 31st March	Note	Page	2022 LKR	2021 LKR
Contingent Liabilities	38.1	230	4,290,100	7,689,916
Commitments	38.2	230	-	-
<b>Total</b>			<b>4,290,100</b>	<b>7,689,916</b>

### 38.1 Contingent Liabilities

In the normal course of business, the Company makes various irrecoverable commitments and incur certain contingent liabilities with legal recourse to its customers and would be a party to litigation due to its operations. Even though these obligations may not be recognised in the Statement of Financial Position, they do contain operational risk and therefore form a part of the overall risk profile of the Company. However no material losses are anticipated as a result of these transactions.

As at 31st March	2022 LKR	2021 LKR
Guarantees issues to other institution	2,250,000	2,250,000
Cases pending against the Company	2,040,100	5,439,916
<b>Total contingent Liabilities</b>	<b>4,290,100</b>	<b>7,689,916</b>

### 38.2 Commitments

The Company did not have significant capital commitments as at the Statement of Financial Position date.

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## 39. NET ASSETS VALUE PER SHARE

As at 31st March	2022 LKR	2021 LKR
<b>Amounts Used as the Numerators:</b>		
Total Equity Attributable to Equity Holders	3,304,795,115	2,181,385,226
<b>Number of Ordinary Shares Used as Denominators:</b>		
Total Number of Ordinary Shares in Issue	149,596,052	104,141,506
Net Assets Value per Share (LKR)	22.09	20.95

## 40. ASSETS PLEDGE

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2022 LKR	2021 LKR	
Rental receivable on Micro Business and Personal Loan	Bank Overdraft	212,405,639	200,635,188	Loans and Receivables
Rental receivable on SME Loan	Term Loan	534,539,745	658,861,762	Loans and Receivables
Rental receivable on Lease	Term Loan	2,180,465,181	417,597,464	Lease Rental Receivable
Rental receivable on Micro Business	Term Loan	11,127,524	5,190,828	Loans and Receivables
Rental receivable on Lease	Securitization	575,549,517	674,529,430	Lease Rental Receivable
		<b>3,514,087,605</b>	<b>1,956,814,673</b>	

## 41. COMPARATIVE INFORMATION

Comparative information is reclassified wherever necessary to confirm with the current year's classification in order to provide better presentation.

### Income Statement

There were no reclassification during the financial year.

### Statement of Financial Position.

There were no reclassification during the financial year.

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## 42. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

As at 31st March 2022	Within 12 Months LKR	After 12 Months LKR	Total LKR
<b>Assets</b>			
Cash and Cash Equivalents	92,132,395	-	92,132,395
Financial Investments	532,667,038	-	532,667,038
Other Financial Assets	814,391	-	814,391
Financial Assets at Amortised Cost - Loans and Receivables	3,360,588,881	1,750,006,212	5,110,595,093
Financial Assets at Amortised Cost - Lease Rentals Receivables	1,586,148,460	3,182,018,536	4,768,166,996
Other Non Financial Assets	147,056,219	15,066,283	162,122,503
Investment Property	-	234,257,500	234,257,500
Property, Plant and Equipment	-	139,267,592	139,267,592
Right-of-use Lease Assets	-	129,533,191	129,533,191
Intangible Assets	-	4,927,786	4,927,786
<b>Total Assets</b>	<b>5,719,407,384</b>	<b>5,455,077,100</b>	<b>11,174,484,484</b>
<b>Liabilities</b>			
Due to Banks and Other Institutions	1,244,017,378	1,076,167,451	2,320,184,829
Financial Liability at Amortised Cost - Due to Customers	3,769,807,649	959,289,470	4,729,097,119
Other Non Financial Liabilities	594,917,272	1,892,117	596,809,388
Current Tax Liabilities	21,170,445	-	21,170,445
Lease Liability	-	149,951,692	149,951,692
Post Employment Benefit Liability	-	32,066,158	32,066,158
Deferred Tax Liabilities	-	20,409,737	20,409,737
<b>Total Liabilities</b>	<b>5,629,912,744</b>	<b>2,239,776,625</b>	<b>7,869,689,368</b>
Net Assets/(Liability)	89,494,640	3,215,300,475	3,304,795,115

As at 31st March 2021	Within 12 Months LKR	After 12 Months LKR	Total LKR
<b>Assets</b>			
Cash and Cash Equivalents	130,870,989	-	130,870,989
Financial Investments	374,591,188	-	374,591,188
Other Financial Assets	779,506	-	779,506
Financial Assets at Amortised Cost - Loans and Receivables	2,750,743,074	2,203,588,095	4,954,331,169
Financial Assets at Amortised Cost - Lease Rentals Receivables	1,268,320,657	1,684,047,367	2,952,368,025
Other Non Financial Assets	99,226,178	-	99,226,178
Intangible Assets	-	5,055,287	5,055,287
Investment Property	-	215,678,750	215,678,750
Property, Plant and Equipment	-	160,884,369	160,884,369
Right-of-Use Assets	56,235,529	86,576,814	142,812,343
<b>Total Assets</b>	<b>4,680,767,121</b>	<b>4,355,830,684</b>	<b>9,036,597,804</b>
<b>Liabilities</b>			
Due to Banks and Other Institutions	1,018,152,760	711,471,350	1,729,624,109
Financial Liability at Amortised Cost - Due to Customers	3,734,554,903	817,390,281	4,551,945,183
Lease Liability	54,317,803	106,881,151	161,198,954
Other Non Financial Liabilities	280,699,706	1,852,393	282,552,100
Post Employment Benefit Liability	-	55,828,613	55,828,613
Current Tax Liabilities	53,665,325	-	53,665,325
Deferred Tax Liabilities	-	20,398,293	20,398,293
<b>Total Liabilities</b>	<b>5,141,390,497</b>	<b>1,713,822,081</b>	<b>6,855,212,578</b>
Net Assets/(Liability)	(460,623,376)	2,642,008,603	2,181,385,226

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## 43. RELATED PARTY TRANSACTIONS

The Company carried out transactions with parties in the ordinary course of its business who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures', on an arms length basis at commercial rate.

Details of related party transactions which the company had during the year are as follows,

### 43.1 Transactions with Key Managerial Personnel (KMPs) and their family members

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company. Accordingly, the board of directors of the Company (inclusive of executive and non executive directors), the immediate parent company, and Chief Executive Officer who directly report to Board of Directors have been classified as KMPs of the Company.

#### 43.1.1 Key Management Personnel Compensation

Year ended 31 March	2022 LKR	2021 LKR
Short Term Employment Benefits	9,453,000	6,225,000
Directors Fees & Expenses	9,924,000	7,576,000
<b>Total Key Management Personnel Compensation</b>	<b>18,324,000</b>	<b>13,801,000</b>

In addition to above, the Company has also provided non-cash benefits such as company maintained vehicles to KMPs in line the approved employment terms of the Company.

#### 43.1.2 Transactions, Arrangements and Agreements involving KMPs, and their Close Members of the Family (CFMs)

CFMs of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity.

The Company carries out transactions with KMPs and their close family members in the ordinary course of its business on an arms length basis at commercial rates, except the loans given to staff under the Company's staff loan scheme uniformly applicable to all the staff of the Company.

#### 43.1.2.1 Transaction with KMPs, and their Close Members of the Family

As at 31st March	2022 LKR	2021 LKR
<b>Items in Statement of Financial Position</b>		
Deposit accept during the year	644,116	785,000
Deposit repayment during the year	(713,580)	(832,347)
	<b>(69,464)</b>	<b>(47,347)</b>

#### For the year ended 31st March

##### Items in Statement of Profit or Loss

Interest accrued during the period	32,985	29,753
	<b>32,985</b>	<b>29,753</b>

#### 43.1.3 Transaction, arrangements and agreements involving Entities which are controlled, and/or jointly controlled by the KMPs and their CFMs or Shareholders

No transactions were there as of Statement of Financial Position date to be disclosed in the Financial Statements.

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## 43. RELATED PARTY TRANSACTIONS (CONTD.)

### 43.1.4 Transactions with Group Entities

The Group entities include the Parent, Fellow Subsidiaries and Associate companies of the parent.

#### 43.1.4.1 Transactions with Parent Company

#### Sarvodaya Economic Enterprises Development (Gte) Ltd (SEEDS).\*\*

\*\*Before the Initial Public Offer (IPO), SEEDS has 54% ownership of the Company and identified as parent company of the Sarvodaya Development Finance Limited and then after the IPO, we have identified as related party company with more than 10% ownership of the SDF.

There is no transaction carried out with SEEDS during the reporting period.

Year ended 31st March	2022 LKR	2021 LKR
	-	-
<b>Gentosa Total Assets Inc.</b>		
Year ended 31st March	2022 LKR	2021 LKR
<b>Items in Statement of Financial Position</b>		
Deposit Accepted during the period including interest capitalisation	-	16,042,952
Interest payable on Deposits	-	-
Capital Repayment during the Year	-	379,749,118
Interest Paid during the Year	-	9,824,287
	-	405,616,358
<b>Items in Statement of Profit or Loss</b>		
Interest Accrued During the Period	-	16,374,968
	-	16,740,033

## 44. EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to the reporting date, the Board of Directors of the Company recommended the payment of a final dividends of 50 cents per share for the year ended 31 March 2022. This final dividend is yet to be approved at the Annual General Meeting to be held on 29th June 2022. In accordance with Sri Lanka Accounting Standards - LKAS 10 (Events After the Reporting Period), this proposed final dividend has not been recognised as liability as at 31 March 2022.

The Company has paid interim dividends of 50 cents per share for the year ended 31 March 2022 on 26th May 2022 which has been approved by the Board of Directors on 30 March 2022. Total payable amount of Rs 74,798,026/- recorded as liability as at reporting date.

There were substantive changes in interest rates after reporting date mainly due to monetary policy rate revision happening continuously. However, the company has taken action to mitigate the risk on interest rate subsequently.

There are no other events occurring after the reporting date which require adjustments to or disclosure in the financial statements other than disclosed above.

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## 45. CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's Capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

### 45.1 Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Company has issued Rs 804 Mn shares during the year through a private placement. This private placement includes Rs 420 Mn shares issued to inactive Sarvodaya Shramadana Societies by converting their deposits. With reference to the Central Bank letter dated 9th July 2021, the action plan has been requested from the Company in relation to the above Rs 420 Mn shares. Therefore, the said Rs 420Mn shares have not been considered the Company's core capital as at 31 March 2022.

However, the company has raised LKR 950 Mn (Net of Direct Expenses) new capital during the financial year through a Initial Public Offer (IPO) and the meet the CBSL minimum core capital requirement of LKR 2.5 Bn as of 31 December 2021.

## 46. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Accounting Policy >>

The fair value of the financial instruments that are recorded at the fair values are determined using valuation techniques which incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability Or
  - In the absence of a principal market, in the most advantageous market for the asset or liability
- The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

### Determination of fair value and fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3 - techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

### Valuation model

For all Financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Company uses alternative market information to validate the Financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

### Valuation framework

The Company has an established control framework for the measurement of fair values. The Finance Department is responsible for the valuation of financial instruments. Obtaining input data, valuing of financial instruments and verifying the valuation models are being segregated within the finance department

We review the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

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## 46. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

### 46.1 Assets & Liabilities Recorded at Fair Value

The following is a description of how fair values are determined for assets and liabilities that are recorded at fair value. These incorporate the Company's estimate of assumptions that a market participant would make when valuing assets and liabilities.

#### Property, Plant & Equipment

Property, Plant & Equipment Freehold land and buildings are carried at revalued amount, being their fair value at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The following table shows an analysis of assets and liabilities recorded/disclosed at fair value by level of the fair value hierarchy

As at 31st March 2022	Date of valuation	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
<b>Non financial assets - Investment property</b>					
Land and building	31/03/2022	-	-	234,257,500	234,257,500
		-	-	234,257,500	234,257,500
<b>Non financial assets - Property, Plant and Equipment</b>					
Land	31/03/2022	-	-	36,100,000	36,100,000
		-	-	36,100,000	36,100,000

As at 31st March 2021	Date of valuation	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
<b>Non financial assets - Investment property</b>					
Land and building	31/03/2021	-	-	215,678,750	215,678,750
		-	-	215,678,750	215,678,750
<b>Non financial assets - Property, Plant and Equipment</b>					
Land	31/03/2021	-	-	36,100,000	36,100,000
		-	-	36,100,000	36,100,000

#### Non Financial Assets measured at fair value

Level 3 Fair Value Measurement

	2022		2021	
	Investment Property LKR	Freehold Land LKR	Investment Property LKR	Freehold Land LKR
<b>Balance as at 1 April</b>	<b>215,678,750</b>	<b>36,100,000</b>	126,094,500	18,050,000
Revaluation reserve credit to revaluation reserve	-	-	-	18,050,000
Total gain/(loss) recognised in profit or loss:	18,578,750	-	89,584,250	-
<b>Balance at 31 March</b>	<b>234,257,500</b>	<b>36,100,000</b>	215,678,750	36,100,000

#### Unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used at 31 March 2022 and 31 March 2021 in measuring non financial instruments categorised as level 3 in the fair value hierarchy. The Company has disclosed fair value of following non financial assets except investment property which is accounted for fair value in the Financial Statements.

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Type of instrument	Date of valuation	Fair value	Valuation technique	Significant unobservable input	Weighted average range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
<b>As at 31st March 2022</b>						
<b>Property, Plant and Equipment</b>						
Land	31/03/2022	36,100,000	Market comparable method	Estimated price per perch	LKR 2 Mn - 3 Mn	*
<b>Investment Property</b>						
Land	31/03/2022	97,380,000	Market comparable method	Estimated price per perch	LKR 2 Mn - 3 Mn	*
Building	31/03/2022	136,877,500	Income Basis	Estimated rental value per sq.ft.	LKR 9,500 - 10,500	*

Type of instrument	Date of valuation	Fair value	Valuation technique	Significant unobservable input	Weighted average range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
<b>As at 31st March 2021</b>						
<b>Property, Plant and Equipment</b>						
Land	31/03/2021	36,100,000	Market comparable method	Estimated price per perch	LKR 2 Mn - 3 Mn	*
<b>Investment Property</b>						
Land	31/03/2021	97,380,000	Market comparable method	Estimated price per perch	LKR 2 Mn - 3 Mn	*
Building	31/03/2021	118,298,750	Income Basis	Estimated rental value per sq.ft.	LKR 9,500 - 10,000	*

\*Significant increase/(decrease) in any of these inputs in isolation would result in a significantly higher/(lower) fair value

### 46.2 Fair Value of Financial Assets and Liabilities Carried at Amortised Cost

The following describes the methodologies and assumptions used to determine fair values of those financial instruments which are not already recorded at fair value in the Financial Statements.

#### Assets of which Fair Value Approximates Carrying Value

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

#### Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity.

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## 46. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

### Variable Rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments by classes that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

As at 31st March 2022	Fair Value				Carrying Value
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR	
<b>Financial Assets</b>					
Cash and Cash Equivalents	92,132,395	-	-	92,132,395	92,132,395
Financial Investments	-	532,667,038	-	532,667,038	532,667,038
Other Financial Assets	-	814,391	-	814,391	814,391
Financial Assets at Amortised					
Cost - Loans and Receivables	-	5,402,718,385	-	5,402,718,385	5,110,595,093
Financial Assets at Amortised					
Cost - Lease Rentals Receivables	-	5,360,739,718	-	5,360,739,718	4,768,166,996
	92,132,395	11,296,939,532	-	11,389,071,927	10,504,375,912
<b>Financial Liabilities</b>					
Due to Banks and Other Institutions	-	2,320,184,829	-	2,320,184,829	2,320,184,829
Due to Customers	-	4,729,097,119	-	4,729,097,119	4,729,097,119
Lease Liabilities	-	149,951,692	-	149,951,692	149,951,692
	-	7,199,233,640	-	7,199,233,640	7,199,233,640

As at 31st March 2021	Fair Value				Carrying Value
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR	
<b>Financial Assets</b>					
Cash and Cash Equivalents	130,870,989	-	-	130,870,989	261,741,978
Financial Investments	-	374,591,188	-	374,591,188	749,182,376
Other Financial Assets	-	779,506	-	779,506	1,559,012
Loans and Receivables	-	5,011,615,239	-	5,011,615,239	5,011,615,239
Lease Rentals Receivables	-	3,405,226,261	-	3,405,226,261	3,405,226,261
	130,870,989	8,792,212,195	-	8,923,083,184	9,429,324,867
<b>Financial Liabilities</b>					
Due to Banks and Other Institutions	-	1,729,624,109	-	1,729,624,109	1,729,624,109
Due to Customers	-	4,551,945,183	-	4,551,945,183	4,551,945,183
Lease Liabilities	-	161,198,954	-	161,198,954	161,198,954
	-	6,442,768,246	-	6,442,768,246	6,442,768,246

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

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## 47. RISK MANAGEMENT

### 47.1 Introduction

"Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring through established risk limits and controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for prudently managing the risk exposures relating to his or her responsibilities. Company's risk strategy focuses on managing principal risks faced by the Company while striking a fair balance between the risk return trade-off. Based on the unprecedented impact on economy and financial services sector due to COVID-19 pandemic, a robust approach in risk management is considered as of paramount importance by the Company.

In the course of its business activities, Sarvodaya Development Finance PLC is constantly exposed to risks that include but are not limited to following risk types;

- Credit Risk
- Liquidity Risk
- Market Risk
- Capital Management and
- Operational Risk"

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- Interest Rate Risk	248

### Risk Management Framework

At Sarvodaya Development Finance PLC, the management of risks, plays an integral part in all its business activities. The identification, evaluation, measurement, mitigation, decision making and control implementation, monitoring and reporting of risks associated with products, processes, systems and services of Sarvodaya Development Finance PLC is vital to the scope of risk management when fulfilling requirements of its customers and other stakeholders.

### Board Integrated Risk Management Committee (BIRMC)

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed a subcommittee, Board Integrated Risk Management Committee (BIRMC). The Board has delegated its authority to the BIRMC for the overall Risk Management approach and for approving the risk management strategies and principles. BIRMC reviews and assess the Company's overall risks and to focus on policy recommendations and strategies and the Board of Directors are duly updated of its activities.

Sarvodaya Development Finance PLC is aware of a wide spectrum of risks that it is exposed to, and provides attention to each and every risk factor that could hinder the achievement of the company's overall objectives. The Company has put in place structures and processes to address these risks which are vested to functional departments. Additionally, the BIRMC carries out independent risk evaluations (both qualitative and quantitative) and the results are shared with the Management team of the Company as well as the Board of Directors.

The following Management Committees, each with a defined responsibility, support the BIRMC by executing their respective management mandates.

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## 47. RISK MANAGEMENT (CONTD.)

### Assets and Liability Management Committee (ALCO)

ALCO is chaired by the CEO and has representatives from the Treasury, Operation, Credit, Risk, Compliance and Finance Departments. The Committee meets regularly to monitor and manage the assets & liabilities of the Company and also to manage the overall liquidity position of the Company to ensure liquidity is maintained at healthy levels, whilst satisfying regulatory requirements. These decisions taken by the ALCO are further reviewed at BIRMC.

### Credit Committee

"There are two Credit Committees, namely Board Credit Committee (BCC) and Management Credit Committee (MCC).

BCC is comprised of four Non-Executive Directors and chaired by an Independent Non-Executive Director. The Board is vested with the ultimate authority to approve credit facilities, whereas BCC formulate credit policies for the company and overlook the credit function by ensuring the asset quality whilst approving high value credit facilities.

MCC is comprised of the CEO, Head of Credit, Head of Finance, Head of Recoveries, and Head of Risk. The Board is vested with the ultimate authority to approve credit facilities, whereas BCC formulate credit policies for the company and overlook the credit function by ensuring the asset quality whilst approving high value credit facilities. MCC is the supreme management level approving authority beyond the delegated authority of the CEO."

### Management Committee (MANCOM)

MANCOM oversees the overall strategy and the new developments in the risk environments to take timely precautions and corrective measures. The Committee comprises of senior level staff and headed by the CEO.

The Company's Board has established the 'three lines of defence' mechanism to provide the foundation for the cohesive governance of risk at all levels of the business.

### Risk Management Department (RMD)

The business units (i.e. Credit Department, Operations Department and Branches etc.) have primary responsibility for risk management. The Integrated Risk Management Unit, which provides an independent oversight function, acts as the 2nd line of defense. The RMD is headed by the Head of Risk who directly reports to the Chair of BIRMC and also has an administrative reporting to the CEO. The RMD accompanies with other control functions (most notably Internal Audit, Compliance and Finance) of the Company that might uncover risk management issues. Each of the control functions has a different focus and potential overlap between them is kept a minimum, while ensuring that the approaches taken are complementary and lead to consistent, effective and timely escalation of risks.

## 48.2 Credit Risk

### Overview

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers. The exposure to the credit risk is mainly derived from financial sector companies as the sector engage primarily in providing financing facilities to its customer. Credit risk constitutes the Company's largest risk exposure category which is managed by evaluating the credit worthiness of the clients and by periodical review on the credit granted.

### Credit Risk Management

The Board of Directors of the Company has delegated responsibility for the oversight of credit risk to its Board Credit Committee. The Credit Department and Recoveries Department are responsible for management of the Companies' credit risk, including the formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. They are also responsible for establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to respective officers with the delegated authority (DA) of the CEO.

It is the Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of qualitative as well as quantitative variables for the measurement of borrowers' risk. All internal risk ratings are tailored to various products namely SME Loans and Leasing. For accounting purposes, the Company uses a collective model for the recognition of losses on impaired financial Assets.

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### Collateral Management

The primary source of repayment of credit exposures is the cash flows while the collaterals obtained by the Company act as a possible secondary recourse. Collateral generally include cash, marketable securities, properties, stocks, trade debtors, other receivables machinery and equipment and other physical or financial assets and are assessed at the inception, in accordance with the guidelines issued by the Central Bank of Sri Lanka.

Clear guidelines are in place to determine the suitability of collateral in credit risk mitigation based on their different characteristics and for valuation, to ensure the collaterals will continue to provide the anticipated secondary source of repayment in an eventuality. The company has a panel of appointed professional valuers in order to obtain valuation of the properties, machinery and vehicles obtained as collateral.

Periodic estimation of values of collateral ensures that they will continue to provide the expected repayment source in an event where the primary source has not materialized. The collaterals vulnerable to frequent fluctuations in values are subject to stringent haircuts and/ or more frequent valuations.

The Company also accepts personal guarantees, guarantees from other financial institutions and credit-worthy bodies as collateral for credit facilities. The financial strength of guarantors as against their cash flows, net worth, etc. is taken into consideration to establish their capacity to repay the facilities in case of a default.

### Covid-19 Impact on credit risk

The outbreak of Covid-19 Pandemic has disrupted the regular business operations and economic activities locally and across the globe. This created serious economic effects in SME and retail segments causing stress on repayment, which elevated the credit risk. Adhering to the guidelines issued by the Central bank of Sri Lanka, the company offered relief measures to individuals and business by deferring payments and waiving off certain fees.

The Company's risk management ensures and continuously monitors the portfolio delinquency levels and sector exposures are kept in a minimum level of risk whilst ensuring the return objectives of the company is achieved.

### Credit risk - impairment provision as per ECL for financial assets

Locally, the spread of COVID-19 has created negative impacts on many firms, mainly through potential disruptions in manufacturing supply chains, domestic consumption, tourism and exports, posing downside risks to their earnings prospects. This has in turn affected the capacity of such firms to meet contractual obligations that leads to an increase in NPLs.

Expected Credit Loss at 31 March 2022 was estimated based on a range of forecast economic conditions prevailing as at that date. As the situation continues to evolve and timelines for a normalization of economic activity remains yet an unknown, the impact to our core markets and the Company's financial results cannot be reasonably estimated or reliably measured based on reasonable and supportable information that is available at the current stage.

### Impairment Assessment

For accounting purposes, the Company uses a collective model for the recognition of losses on impaired financial assets.

### Collectively assessed allowance

Allowances are assessed collectively for losses on leases and loans. Detailed Note on impairment method has disclosed in note 22 on page 208.

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## 47.2.1 Maximum Exposure to Credit Risk

As at 31st March	2022				Total LKR
	Neither Past Due Nor Impaired LKR	Past Due But Not Impaired LKR	Individually Impaired LKR	Collectively Impaired LKR	
<b>Assets</b>					
Cash and Cash Equivalents	92,132,395	-	-	-	92,132,395
Loans and Receivable (Gross)	512,461,047	-	-	4,951,002,521	5,463,463,569
Lease Rentals Receivables (Gross)	-	-	-	4,965,814,166	4,965,814,166
Financial Investments	532,667,038	-	-	-	532,667,038
Other Financial Assets	779,506	-	-	-	779,506
<b>Total Financial Assets</b>	<b>1,138,039,986</b>	<b>-</b>	<b>-</b>	<b>9,916,816,688</b>	<b>11,054,856,674</b>

47.2.1.1 The Company consider total loan and lease balances to calculate collective impairment.

## 47.2 Credit Risk

As at 31st March	2021				Total LKR
	Neither Past Due Nor Impaired LKR	Past Due But Not Impaired LKR	Individually Impaired LKR	Collectively Impaired LKR	
<b>Assets</b>					
Cash and Cash Equivalents	130,870,989	-	-	-	130,870,989
Loans and Receivable (Gross)	539,822,681	-	-	4,750,285,607	5,290,108,288
Lease Rentals Receivables (Gross)	-	-	-	3,090,996,132	3,090,996,132
Financial Investments	374,591,188	-	-	-	374,591,188
Other Financial Assets	779,506	-	-	-	779,506
<b>Total Financial Assets</b>	<b>1,046,064,364</b>	<b>-</b>	<b>-</b>	<b>7,841,281,739</b>	<b>8,887,346,103</b>

47.2.1.2 The Company consider total loan and lease balances to calculate collective impairment.

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## 47.2.2 Analysis of Risk Concentration

### 47.2.2.1 Industry Analysis

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

As at 31st March	2022					Total Financial Assets LKR
	Cash and Cash Equivalents LKR	Loans and Receivable LKR	Lease Rental Receivable LKR	Financial Investments LKR	Other Financial Assets LKR	
Agriculture & Fishing	-	2,223,347,911	3,553,462,141	-	-	5,776,810,052
Manufacturing	-	322,348,247	326,592,322	-	-	648,940,570
Tourism	-	23,115,059	1,708,710	-	-	24,823,770
Transport	-	9,287,478	108,823,916	-	-	118,111,394
Constructions	-	879,941,218	34,277,312	-	-	914,218,530
Trades	-	243,311,618	18,134,474	-	-	261,446,092
New Economy	-	4,770,773	1,601,784	-	-	6,372,556
Financial and Business Services	92,132,395	7,359,446	1,272,963	-	814,391	101,579,195
Infrastructure	-	31,472,375	731,825	-	-	32,204,200
Government	-	-	-	532,667,038	-	532,667,038
Other Services	-	1,365,640,967	721,561,550	-	-	2,087,202,517
<b>Total</b>	<b>92,132,395</b>	<b>5,110,595,093</b>	<b>4,768,166,996</b>	<b>532,667,038</b>	<b>814,391</b>	<b>10,504,375,913</b>

As at 31st March	2021					Total Financial Assets LKR
	Cash and Cash Equivalents LKR	Loans and Receivable LKR	Lease Rental Receivable LKR	Financial Investments LKR	Other Financial Assets LKR	
Agriculture & Fishing	-	314,167,736	35,076,458	-	-	349,244,193
Manufacturing	-	589,276,808	771,839,564	-	-	1,361,116,372
Tourism	-	28,975,047	4,939,856	-	-	33,914,904
Transport	-	18,674,540	301,793,601	-	-	320,468,141
Constructions	-	2,087,827,629	33,188,275	-	-	2,121,015,904
Trades	-	435,367,394	46,522,896	-	-	481,890,290
New Economy	-	20,533,070	18,203,064	-	-	38,736,134
Financial and Business Services	73,226,394	56,133,498	5,490,604	-	164,535,666	299,386,162
Infrastructure	-	47,076,779	630,697	-	-	47,707,476
Government	-	-	-	444,939,031	-	444,939,031
Other Services	-	1,356,298,668	1,734,683,011	-	-	3,090,981,679
<b>Total</b>	<b>73,226,394</b>	<b>4,954,331,169</b>	<b>2,952,368,025</b>	<b>444,939,031</b>	<b>164,535,666</b>	<b>8,589,400,285</b>

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## 47. RISK MANAGEMENT (CONTD.)

### 47.2.2.2 Geographical distribution of loans and receivables

Provincial breakdown for loans and receivable within Sri Lanka is as follows;

	Term Loan and receivables	Lease receivable	Total
	Past Due But Not Impaired	Past Due But Not Impaired	Past Due But Not Impaired
	LKR	LKR	LKR
<b>As at 31 March 2022</b>			
Central	523,152,931	539,828,434	1,062,981,365
Eastern	576,772,425	578,229,047	1,155,001,472
North Central	422,267,689	1,023,412,127	1,445,679,816
Northern	657,167,431	488,973,408	1,146,140,838
North Western	189,083,108	82,949,765	272,032,873
Sabaragamuwa	541,763,951	334,449,570	876,213,521
Southern	729,470,827	443,147,528	1,172,618,355
Uva	514,349,446	581,902,941	1,096,252,387
Western	1,309,435,762	892,921,346	2,202,357,108
<b>Total</b>	<b>5,463,463,569</b>	<b>4,965,814,166</b>	<b>10,429,277,735</b>
<b>As at 31 March 2021</b>			
Central	463,475,972	373,481,486	836,957,458
Eastern	608,487,443	319,305,448	927,792,891
North Central	531,860,960	498,267,628	1,030,128,588
Northern	565,131,232	338,183,435	903,314,667
North Western	230,278,554	44,398,376	274,676,930
Sabaragamuwa	524,907,151	224,720,863	749,628,014
Southern	643,451,495	314,216,965	957,668,460
Uva	408,256,314	339,943,189	748,199,504
Western	1,314,259,166	638,478,743	1,952,737,909
<b>Total</b>	<b>5,290,108,288</b>	<b>3,090,996,132</b>	<b>8,381,104,420</b>

### 47.2.3 Fair value of collateral and credit enhancements held

As a general principle, the Company endeavors to obtain adequate collateral to secure its credit portfolios. The Company focuses on quality and responsibility of such collateral to mitigate potential credit losses. Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. A reasonable margin of safety is maintained in collateral values.

The main types of collateral obtained are, as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables and transfer of ownership over the vehicles.
- For retail lending, mortgages over residential properties and transfer of ownership over the vehicles.

The general creditworthiness of significant customers tends to be the most relevant indicator of credit quality of a facility extended to those parties. However, collateral provides additional security and the Company generally requests large borrowers to provide same. The Company may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees. As Company's focus on corporate customers is mainly based on their credit worthiness, business standing and reputation, Company does not insist on updated valuation of collateral from corporate clients. Such valuations will only be called for from corporate clients only if there is a foreseeable deterioration in credit standing or evidence of possible credit risk. Accordingly, the Company does not routinely update the valuation of collateral held against all facilities to significant customer for impaired facilities, the Company usually obtains the current market value of the collateral, since it may be an input to the impairment measurement.

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The following table shows the fair value of collateral and credit enhancements held by the Company.

Company	31 March 2022		31 March 2021	
	Maximum exposure to credit risk	Net exposure	Maximum exposure to credit risk	Net exposure
	LKR	LKR	LKR	LKR
Cash and cash equivalents (excluding cash in hand)	40,872,038	-	83,332,388	-
Financial Investments	532,667,038	-	374,591,188	-
Other Financial Assets	814,391	814,391	779,506	779,506
Loans and Receivables	5,463,463,569	-	5,290,108,288	-
Lease Rental Receivable	4,965,814,166	-	3,090,996,132	-
	<b>11,003,631,202</b>	<b>814,391</b>	<b>8,839,807,502</b>	<b>779,506</b>

### 47.2.4 Sensitivity of impairment provision on loans and receivables

	Sensitivity on ECL sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on income
	Stage 1 " Past Due But Not Impaired "	Stage 2 " Past Due But Not Impaired "	Stage 3 " Past Due But Not Impaired "	Total " Past Due But Not Impaired "	
<b>As at 31 March 2022</b>					
PD 1% increase across all age buckets	7,713,435	2,043,273	-	9,756,708	9,756,708
PD 1% decrease across all age buckets	(7,713,435)	(2,043,273)	-	(9,756,708)	(9,756,708)
LGD 5% increase	72,450,170	43,437,724	80,598,462	196,486,356	196,486,356
LGD 5% decrease	(72,450,170)	(43,437,724)	(80,598,462)	(196,486,356)	(196,486,356)
Probability weighted Economic Scenarios					
- Base case 10% increase, worst case 5% decrease and best case 5% decrease	233,452	107,326	-	340,779	340,779
- Base case 10% decrease, worst case 5% increase and best case 5% increase	(233,452)	(107,326)	-	(340,779)	(340,779)

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## 47. RISK MANAGEMENT (CONTD.)

### 47.3 Liquidity Risk & Funding Management

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To limit this risk, the Company's Management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing liquidity and funding to ensure future cash flows. The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the Asset and Liability Management Committee (ALCO) analyses and monitors liquidity risk and maintains an adequate margin of safety in liquid assets.

ALCO meets at least once in two months and as and when necessary. ALCO is responsible for managing and controlling the overall liquidity of the Company and reviews the impact of strategic decisions on Company's liquidity position.

During the Covid-19 pandemic the Company implemented a comprehensive and proactive mechanism to ensure that liquid assets are well managed by the organization during periods of business disruptions and well addressed during the turbulent times. Management developed cash flow forecasts in order to monitor and absorb sudden liquidity shock to comply financial covenant and CBSL Liquidity Requirement, i.e. consider sufficient cash and unused credit lines, deposits renewal ratio, customer collection ratios, availability of negotiate borrowing facilities to meet short term needs, restructure operations to reduce operating costs and defer capital expenditure. ALCO closely overlooks the changes and developments related to the pandemic both locally and globally and incorporated them when making management decisions.

Furthermore, the Company maintains the Statutory Liquid Assets Ratio (SLAR) at its required level as a method to measure and control daily liquidity risk.

#### 47.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities.

As at 31st March 2022	On Demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
<b>Financial Assets</b>						
Cash and Cash Equivalents	92,132,395	-	-	-	-	92,132,395
Financial Investments	-	377,724,430	154,942,608	-	-	532,667,038
Other Financial Assets	-	391,331	423,060	-	-	814,391
Financial Assets at Amortised Cost						
- Loans and Receivables	1,013,272,177	447,091,523	1,314,576,694	3,621,707,553	-	6,396,647,946
Financial Assets at Amortised Cost						
- Lease Rentals Receivables	1,798,825,766	697,175,460	1,762,871,472	2,756,716,744	-	7,015,589,442
<b>Total Financial Assets</b>	<b>2,904,230,337</b>	<b>1,522,382,745</b>	<b>3,232,813,834</b>	<b>6,378,424,297</b>	<b>-</b>	<b>14,037,851,213</b>
<b>Financial Liabilities</b>						
Due to Banks and Other Institutions	356,243,354	339,313,692	548,460,332	1,070,053,993	6,113,458	2,320,184,829
Due to Customers	1,137,725,441	927,953,764	1,851,927,917	744,685,141	66,804,856	4,729,097,119
Lease Liability	-	67,899,858	68,113,951	13,937,883	-	149,951,692
<b>Total Financial Liabilities</b>	<b>1,493,968,796</b>	<b>1,335,167,314</b>	<b>2,468,502,200</b>	<b>1,828,677,018</b>	<b>72,918,314</b>	<b>7,199,233,640</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>1,410,261,542</b>	<b>187,215,431</b>	<b>764,311,634</b>	<b>4,549,747,279</b>	<b>(72,918,314)</b>	<b>6,838,617,573</b>

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As at 31st March 2021	On Demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
<b>Financial Assets</b>						
Cash and Cash Equivalents	130,870,989	-	-	-	-	130,870,989
Financial Investments	-	298,608,188	75,983,000	-	-	374,591,188
Other Financial Assets	-	276,735	502,771	-	-	779,506
Financial Assets at Amortised Cost						
- Loans and Receivables	552,261,393	1,237,591,845	1,509,830,199	2,707,493,996	-	6,007,177,433
Financial Assets at Amortised Cost						
- Lease Rentals Receivables	123,172,283	579,904,815	1,155,513,651	2,362,771,220	125,405	4,221,487,374
<b>Total Financial Assets</b>	<b>806,304,665</b>	<b>2,116,381,583</b>	<b>2,741,829,621</b>	<b>5,070,265,216</b>	<b>125,405</b>	<b>10,734,906,490</b>
<b>Financial Liabilities</b>						
Due to Banks and Other Institutions	248,436,128	223,244,504	546,472,128	704,011,325	7,460,025	1,729,624,109
Financial Assets at Amortised Cost						
- Due to Customers	1,144,722,764	1,030,224,505	1,559,607,634	735,317,919	82,072,361	4,551,945,183
Lease Liability	-	53,094,632	94,318,893	13,785,429	-	161,198,954
<b>Total Financial Liabilities</b>	<b>1,393,158,892</b>	<b>1,306,563,641</b>	<b>2,200,398,655</b>	<b>1,453,114,673</b>	<b>89,532,386</b>	<b>6,442,768,246</b>
<b>Total Net Financial Assets/(Liabilities)</b>	<b>(586,854,227)</b>	<b>809,817,942</b>	<b>541,430,966</b>	<b>3,617,150,543</b>	<b>(89,406,981)</b>	<b>4,292,138,244</b>

#### 47.3.2 Commitments and Contingencies

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments.

As at 31st March 2022	On Demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
Guarantees issues to other institution	-	-	2,250,000	-	-	2,250,000
Cases pending against the company	-	-	-	2,040,100	-	2,040,100
<b>Total Commitments and guarantees</b>	<b>-</b>	<b>-</b>	<b>2,250,000</b>	<b>2,040,100</b>	<b>-</b>	<b>4,290,100</b>

As at 31st March 2021	On Demand LKR	Less than 03 Months LKR	03-12 Months LKR	01-05 Years LKR	Over 05 Years LKR	Total LKR
Guarantees issues to other institution	-	-	2,250,000	-	-	2,250,000
Cases pending against the company	-	-	-	5,439,916	-	5,439,916
<b>Total Commitments and guarantees</b>	<b>-</b>	<b>-</b>	<b>2,250,000</b>	<b>5,439,916</b>	<b>-</b>	<b>7,689,916</b>

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## 47. RISK MANAGEMENT (CONTD.)

### 47.3.2 Contractual Maturities of Commitments & Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2022 and as at 31 March 2021.

### 47.4 Operational Risk

#### Overview

The operation risk management is the responsibility of all the staff in the company. The accountability of managing operation risk lies with the management committee member LKR They are responsible for maintaining an over sight over operational risk, and internal controls and covering all businesses and operations pertaining to the Company.

After reviewing the audit reports the Integrated Risk Management Committee has identified certain common KRI that is affecting the branch operations. These risks that have been identified are critically reviewed regularly with the help of Internal Audit Department.

The Company has introduced and implemented a comprehensive BCP and DR policy. The BCP and DR policy is supported by a BCP and DR plan to ensure that SDF has the capability to handle failure of system, disaster at branches and disruption of business.

Additionally, the Operational Risk Self-Assessment (ORSA) process which has facilitated both management and staff to assume responsibility for internal controls. It also acts as a bottom-up feedback mechanism which supports proactivity in risk management.

### 47.5 Market Risk

#### Overview

Market risk is the potential of an adverse impact on Company's earnings or capital due to changes in interest rates. During the normal course of its business, company deals in financial products such as loans and deposits to facilitate both customer-driven and proprietary transactions which expose the company to market risk in varying degrees.

#### Market Risk Management

Risk Management Framework ensures the appropriate management of the market risks so that adverse changes in market risk parameters, do not materially impact Company's profitability, capital or the risk profile.

Upon recognizing various sources of risks, their characteristics and possible outcomes resulting from transactions undertaken by the company risk management process functions in compliance with the Investment Policy and Asset and Liability Policy . Investment Policy and Asset and Liability Policy alone with Integrated Risk Management Framework (IRMF) and Stress Testing Guidelines also define exposure limits and procedures within which such transactions are required to be undertaken. Market risk limits set out in the above policies are regularly reviewed by Asset and Liability Management Committee (ALCO) and Integrated Risk Management Committee (IRMC).

ALCO is the core management committee that regularly monitors market risk exposures and initiates appropriate action to optimize overall market risk exposures of the company. In this regard, the major functions carried out by ALCO include:

- proactive managing of liquidity risk profile of the company
- articulating interest rate review of the company
- monitoring asset and liability gaps, and rate shock results on Net Interest Income (NII) to initiate appropriate measures such as changing interest rate structure.

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### 47.5.1 Interest Rate Risk

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities, namely the granting of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; and basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to company's net interest income and net interest margin. The Company's exposure to interest rate risk is primarily associated with factors such as:

- Reprising risk arising from a fixed rate borrowing portfolio where reprising frequency is different to that of the lending portfolio;
- Yield curve risk arising from unanticipated shifts of the market yield curve;

Interest rate risk is managed principally through minimizing interest rate sensitive asset/liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly. Regularly monitoring of Net interest margin took place to be vigilant and proactive towards the Covid-19 relief measures introduced by the government pertaining to interest rates.

### 47.5.2 Interest Rate Risk Exposure On Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

As at 31st March 2022	Up to 03 Months LKR	03-12 Months LKR	01-03 Years LKR	03-05 Years LKR	Over 05 Years LKR	Non Interest Bearing LKR	Total as at 31.03.2022 LKR
<b>Assets</b>							
Cash and Cash Equivalents	40,872,038	-	-	-	-	51,260,357	92,132,395
Financial Investments	377,724,430	154,942,608	-	-	-	-	532,667,038
Other Financial Assets	391,331	423,060	-	-	-	-	814,391
Financial Assets at Amortised							
Cost - Loans and Receivables	2,047,763,612	1,312,825,269	1,419,131,496	330,874,716	-	-	5,110,595,093
Financial Assets at Amortised							
Cost - Lease Rentals Receivables	624,936,125	961,212,336	2,364,195,807	817,822,729	-	-	4,768,166,996
<b>Total Financial Assets</b>	<b>3,091,687,536</b>	<b>2,429,403,273</b>	<b>3,783,327,303</b>	<b>1,148,697,445</b>	<b>-</b>	<b>51,260,357</b>	<b>10,504,375,912</b>
<b>Financial Liabilities</b>							
Due to Banks and							
Other Institutions	695,557,046	548,460,332	912,743,973	157,310,021	51,508	6,061,950	2,320,184,829
Financial Assets at Amortised							
Cost - Due to Customers	1,917,879,732	1,851,927,917	613,423,272	131,261,869	66,804,856	147,799,473	4,729,097,119
Lease Liability	17,176,000	50,723,858	68,113,951	13,937,883	-	-	149,951,692
<b>Total Financial Liabilities</b>	<b>2,630,612,778</b>	<b>2,451,112,107</b>	<b>1,594,281,195</b>	<b>302,509,773</b>	<b>66,856,364</b>	<b>153,861,423</b>	<b>7,199,233,640</b>
<b>Interest Sensitivity Gap</b>	<b>461,074,757</b>	<b>(21,708,834)</b>	<b>2,189,046,108</b>	<b>846,187,672</b>	<b>(66,856,364)</b>	<b>(102,601,066)</b>	<b>3,305,142,272</b>

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As at 31st March 2021	Up to 03 Months LKR	03-12 Months LKR	01-03 Years LKR	03-05 Years LKR	Over 05 Years LKR	Non Interest Bearing LKR	Total as at 31.03.2021 LKR
<b>Assets</b>							
Cash and Cash Equivalents	83,332,388	-	-	-	-	47,538,601	130,870,989
Financial Investments	298,608,188	75,983,000	-	-	-	-	374,591,188
Other Financial Assets	276,735	502,771	-	-	-	-	779,506
Financial Assets at Amortised							
Cost - Loans and Receivables	1,670,663,975	1,086,467,681	2,079,502,193	117,697,321	-	-	4,954,331,169
Financial Assets at Amortised							
Cost - Lease Rentals							
Receivables	533,468,140	735,597,833	892,285,560	790,898,815	117,677	-	2,952,368,025
<b>Total Financial Assets</b>	<b>2,586,349,426</b>	<b>1,898,551,285</b>	<b>2,971,787,753</b>	<b>908,596,136</b>	<b>117,677</b>	<b>47,538,601</b>	<b>8,412,940,877</b>
<b>Financial Liabilities</b>							
Due to Banks and							
Other Institutions	450,453,638	546,472,128	561,965,468	142,045,857	1,398,075	27,288,943	1,729,624,109
Financial Assets at Amortised							
Cost - Due to Customers	2,025,338,148	1,559,607,634	606,377,716	128,940,204	82,072,361	149,609,120	4,551,945,183
Lease Liability	13,444,945	39,649,687	94,318,893	13,785,429			161,198,954
<b>Total Financial Liabilities</b>	<b>2,489,236,731</b>	<b>2,145,729,449</b>	<b>1,262,662,077</b>	<b>284,771,490</b>	<b>83,470,436</b>	<b>176,898,063</b>	<b>6,442,768,246</b>
Interest Sensitivity Gap	97,112,695	(247,178,164)	1,709,125,676	623,824,646	(83,352,760)	(129,359,462)	1,970,172,631

## 48. FINANCIAL REPORTING BY SEGMENT

For management purposes, the Company is organised into business units based on its products and services and has three reportable segments, as follows:

### Lease

This segment includes Leasing products offered to the customers.

### Loan

This segment includes SME, Micro, Personal and Gold loans offered to the customers

### Other Business

This segment include all other business activities that Company engaged other than above segments

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the financial statements. Also, the Company's financing (including finance costs and finance income) and income taxes are managed on a Company basis and are not allocated to operating segments.

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Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

	Lease		Loan		Other		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR

## For the year ended 31 March

### Statement of Profit or loss

Interest income	867,285,943	553,963,114	917,956,222	993,024,757	37,073,023	37,756,769	1,822,315,188	1,584,744,640
Net fee and commission income	39,835,727	28,294,533	23,947,280	7,059,908	(195,737)	501,562	63,587,270	35,856,002
Other operating income	15,599,390	11,250,522	9,659,627	21,511,206	19,247,802	90,176,835	44,506,819	122,938,563
<b>Gross income</b>	<b>922,721,061</b>	<b>593,508,169</b>	<b>951,563,129</b>	<b>1,021,595,870</b>	<b>56,125,088</b>	<b>128,435,165</b>	<b>1,930,409,278</b>	<b>1,743,539,205</b>
Interest expenses	(250,214,030)	(213,217,770)	(275,289,246)	(364,913,136)	(36,612,832)	(45,216,115)	(562,116,108)	(623,347,022)
<b>Total operating income</b>	<b>672,507,031</b>	<b>380,290,399</b>	<b>676,273,883</b>	<b>656,682,734</b>	<b>19,512,256</b>	<b>83,219,050</b>	<b>1,368,293,170</b>	<b>1,120,192,183</b>
Credit loss expenses	(59,019,063)	(8,397,145)	(126,032,417)	(42,487,510)	(7,567,108)	(9,207,207)	(192,618,588)	(60,091,862)
<b>Net Operating Income</b>	<b>613,487,969</b>	<b>371,893,255</b>	<b>550,241,466</b>	<b>614,195,224</b>	<b>11,945,148</b>	<b>74,011,843</b>	<b>1,175,674,582</b>	<b>1,060,100,321</b>
Other Expenses	(311,430,749)	(203,111,218)	(342,640,803)	(347,616,203)	(45,570,433)	(43,072,865)	(699,641,985)	(593,800,286)
Depreciation and Amortization	(44,855,202)	(37,661,058)	(49,350,369)	(64,455,298)	(6,563,485)	(7,986,608)	(100,769,057)	(110,102,964)
<b>Segment Result</b>	<b>257,202,017</b>	<b>131,120,978</b>	<b>158,250,293</b>	<b>202,123,723</b>	<b>(40,188,770)</b>	<b>22,952,369</b>	<b>375,263,540</b>	<b>356,197,071</b>

Tax on financial services							(106,552,907)	(89,362,305)
Income tax expenses							(53,244,387)	(83,478,023)

### Profit attributable to

<b>share holders</b>	<b>257,202,017</b>	<b>131,120,978</b>	<b>158,250,293</b>	<b>202,123,723</b>	<b>(40,188,770)</b>	<b>22,952,369</b>	<b>215,466,246</b>	<b>183,356,743</b>
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## As at 31 March

### Statement of Financial Position

Segment assets	4,965,814,166	3,090,996,132	5,463,463,569	5,290,108,288	745,206,749	655,493,384	11,174,484,484	9,036,597,804
<b>Total Assets</b>	<b>4,965,814,166</b>	<b>3,090,996,132</b>	<b>5,463,463,569</b>	<b>5,290,108,288</b>	<b>745,206,749</b>	<b>655,493,384</b>	<b>11,174,484,484</b>	<b>9,036,597,804</b>
Segment liabilities	3,710,813,892	2,474,773,376	3,658,456,408	3,898,036,862	500,419,068	482,402,341	7,869,689,368	6,855,212,578
<b>Total liabilities</b>	<b>3,710,813,892</b>	<b>2,474,773,376</b>	<b>3,658,456,408</b>	<b>3,898,036,862</b>	<b>500,419,068</b>	<b>482,402,341</b>	<b>7,869,689,368</b>	<b>6,855,212,578</b>

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## Independent Assurance Report to the Board of Directors of Sarvodaya Development Finance PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report-2021/22

### Scope

We have been engaged by the management of Sarvodaya Development Finance PLC ("the Company") to perform an independent assurance engagement, as defined by the Sri Lankan Standard on Assurance Engagements, on the sustainability reporting criteria presented in the Integrated Annual Report for the year ended 31 March 2022 (the "Report").

- Reasonable assurance on the information on financial performance as specified on page 60 to 61 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the GRI Standards: Core option.

### Criteria applied by Sarvodaya Development Finance PLC

The sustainability reporting criteria presented in the Report has been prepared in accordance with The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, publicly available at GRI's global website [www.globalreporting.org](http://www.globalreporting.org).

This Report has been prepared in accordance with the GRI Standards: Core option (the "criteria").

### Sarvodaya Development Finance PLC's responsibilities

Sarvodaya Development Finance PLC's management is responsible for selecting the criteria, and for presenting the Report in accordance with the said criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to support the sustainability reporting process of the Report, such that it is free from material misstatement, whether due to fraud or error.

### Ernst & Young's responsibilities

Our responsibility is to express a conclusion on the presentation of the Report in accordance with the GRI Standards: Core option based on the evidence we have obtained.

### We conducted our engagement in accordance with the

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W R B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. A A Ludowyke FCA FCMA, Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: G B Goudian ACMA, Ms. P S Paranavitane ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka and the terms of reference for this engagement as agreed with Sarvodaya Development Finance PLC in the engagement letter dated 20 May 2022.

The standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Report in order for it to be in accordance with the criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our independent assurance conclusion.

### Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka and have the required competencies and experience to conduct this assurance engagement.

EY also applies Sri Lanka Standard on Quality Control (SLSQC 1), Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Description of procedures performed

We performed our procedures to provide an independent assurance engagement in accordance with SLSAE 3000.

Procedures performed in the reasonable assurance engagement depend on our judgement, including the assessment of the risks

of material misstatement whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the reasonable assurance Indicators in order to design the assurance procedures that are appropriate in the circumstances. Our procedures also included assessing the appropriateness of the reasonable assurance indicators, the suitability of the criteria in preparing and presenting the reasonable assurance indicators within the Report and obtaining an understanding of the compilation of the financial information to the sources from which it was obtained.

Procedures performed in the limited assurance engagement consisted of making inquiries, primarily of persons responsible for preparing the Report and related information and applying analytical and other appropriate procedures. These procedures vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

We also performed the below procedures as we considered necessary in the circumstances:

- Perform a comparison of the content of the Report against the Global Reporting Initiative (GRI) - GRI Standards guideline.
- Interviewing relevant organization's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Review and validation of the information contained in the Report.
- Check the calculations performed by the organization on a sample basis through recalculation.
- Advice, make recommendations and suggestions on

the Sustainability Reporting indicators to improve the presentation standard.

- Independently review the content of the Report and request changes if required.
- Express an independent assurance conclusion on the performance indicators presented in the Sustainability Reporting criteria.

### Emphasis of matter

Social, natural and intellectual capital management data/information are subjected to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Report.

### Restricted use

This report is intended solely for the information and use of Sarvodaya Development Finance PLC and is not intended

to be and should not be used by anyone other than the specified party.

### Conclusion

Based on our procedures and the evidence obtained, we conclude that:

- The information on financial performance as specified on page 60 to 61 of the Report is properly derived from the audited financial statements of the Company for the year ended 31 March 2022.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from the GRI Standards: Core option.

**Chartered Accountant**  
Colombo

25th May 2022

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Statement of use	Sarvodaya Development Finance PLC has reported for the pe-riod April 1st, 2021 to March 31st 2022 with reference to the GRI Standards.
GRI 1 used	GRI 1: Foundation 2021

GRI STANDARD	DISCLOSURE	LOCATION (Chapter and page number)
<b>General disclosures</b>		
GRI 2: General Disclosures 2021	2-1 Organizational details	Corporate Information page 272
	2-2 Entities included in the organization's Sustainability reporting	About this report page 15
	2-3 Reporting period, frequency and contact point	About this report page 15
	2-4 Restatements of information	About this report page 15
	2-5 External assurance	About this report page 15
	2-6 Activities, value chain and other Business relationships	About us : Value creation Model page 38
	2-7 Employees	Human Capital page 77
	2-8 Workers who are not employees	Human Capital page 77
	2-9 Governance structure and composition	Governance and compliance page 97
	2-10 Nomination and selection of the highest governance body	Governance and compliance page 98
	2-11 Chair of the highest governance body	Governance and compliance page 99
	2-12 Role of the highest governance body in overseeing the management of impacts	Governance and compliance page 98
	2-13 Delegation of responsibility for managing impacts	Governance and compliance page 101
	2-14 Role of the highest governance body in sustainability reporting	Governance and compliance page 101
	2-15 Conflicts of interest	Governance and compliance page 128
	2-16 Communication of critical concerns	Governance and compliance page 99
	2-17 Collective knowledge of the highest governance body	Governance and compliance page 99
	2-18 Evaluation of the performance of the highest governance body	Governance and compliance page 106
	2-19 Remuneration policies	Remuneration Committee Report page 151
	2-20 Process to determine remuneration	Remuneration Committee Report page 151
	2-21 Annual total compensation ratio	Human Capital page 77
	2-22 Statement on sustainable development strategy	Chairman's Message page 23
	2-23 Policy commitments	Our strategies policies and practices page 40
	2-24 Embedding policy commitments	Our strategies policies and practices page 40
	2-25 Processes to remediate negative impacts	Our strategies policies and practices page 41
	2-26 Mechanisms for seeking advice and raising concerns	Our strategies policies and practices page 41
	2-27 Compliance with laws and regulations	Our strategies policies and practices page 41
	2-28 Membership associations	Our strategies policies and practices page 41
	2-29 Approach to stakeholder engagement	Social Capital: Engaging with our stakeholders page 84
	2-30 Collective bargaining agreements	Social Capital: Engaging with our stakeholders page 86

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GRI STANDARD	DISCLOSURE	LOCATION (Chapter and page number)
<b>GRI 3: Material Topics 2021</b>		
GRI 3: Material Topics 2021	3-1 Process to determine material topics	Materiality assessment and material topics page 42
	3-2 List of material topics	Materiality assessment and material topics page 43
	3-3 Management of material topics	Materiality assessment and material topics page 43
<b>GRI 201: Economic Performance 2016</b>		
Disclosure Title	201-1 Direct economic value generated and distributed	Economic Impacts page 60
<b>GRI 203: Indirect Economic Impacts 2016</b>		
Disclosure Title	203-2 Significant indirect economic impacts	Economic Impacts page 61
<b>GRI 207 Tax 2019</b>		
Disclosure Title	207-1 Approach to tax	Economic Impacts page 63
<b>GRI 302: Energy 2016</b>		
Disclosure Title	302-1 Energy consumption within the organization	Natural Capital page 95
	302-4 Reduction of energy consumption	Natural Capital page 95
<b>GRI 303: Water and Effluents 2018</b>		
Disclosure Title	303-5 Water consumption	Natural Capital page 95
<b>GRI 306: Waste 2020</b>		
Disclosure Title	306-3 Waste generated	Natural Capital page 95
<b>GRI 401: Employment 2016</b>		
Disclosure Title	401-1 New employee hires and employee turnover	Human Capital page 78
<b>GRI 404: Training and Education 2016</b>		
	404-1 Average hours of training per year per employee	Human Capital page 79
<b>GRI 405: Diversity and Equal Opportunity 2016</b>		
Disclosure Title	405-1 Diversity of governance bodies and employees	Human Capital page 79
<b>GRI 406: Non-discrimination 2016</b>		
Disclosure Title	406-1 Incidents of discrimination and corrective actions taken	Human Capital page 80
<b>GRI 411: Rights of Indigenous Peoples 2016</b>		
Disclosure Title	411-1 Incidents of violations involving rights of indigenous peoples	Social Capital page 90
<b>GRI 413: Local Communities 2016</b>		
Disclosure Title	Disclosure 413-1 Operations with local community engagement, impact assessments, and development programs	Social Capital page 90
<b>GRI 417: Marketing and Labeling 2016</b>		
Disclosure Title	417-2 Incidents of non-compliance concerning product and service information and labeling	Social Capital page 93

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For the Year ended 31st March	2021/22 Rs. (000)	2020/21 Rs. (000)	2019/20 Rs. (000)	2018/19 Rs. (000)	2017/18 Rs. (000)	2016/17 Rs. (000)	2015/16 Rs. (000)	2014/15 Rs. (000)	2013/14 Rs. (000)	2012/13 Rs. (000)
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## Operating Results

Income	1,930,409	1,743,539	1,802,436	1,575,247	1,320,761	1,092,958	1,014,754	752,993	628,973	512,764
Interest Income	1,822,315	1,584,745	1,681,679	1,433,374	1,179,563	883,758	922,994	652,411	616,478	488,947
Interest Expenses	562,116	623,347	750,116	606,621	416,599	280,902	255,915	210,804	183,543	163,076
Net Interest Income	1,260,199	961,398	931,562	826,753	762,964	602,856	667,079	441,607	432,935	325,871
Other Income	108,094	158,795	120,757	141,872	141,198	209,200	91,760	100,582	12,495	23,816
Total Operating Income	1,368,293	1,120,192	1,052,319	968,626	904,162	812,056	758,839	542,189	445,430	349,688
Operating Expenses	800,411	703,903	700,911	717,895	630,190	635,628	571,762	473,080	469,146	242,493
Impairment Losses	192,619	60,092	119,318	94,014	89,116	172,259	61,294	67,332	(57,616)	62,245
Profit Before Taxation	375,264	356,197	232,090	156,717	184,856	4,169	125,783	1,777	33,899	44,950
Tax on Financial Services	106,553	89,362	108,023	87,760	70,751	48,027	49,272	22,245	23,619	6,130
Income Tax Expenses/(Reversal)	53,244	83,478	22,351	27,740	21,922	(9,324)	30,369	(8,675)	14,006	8,656
Profit/(Loss) for the Year (PAT)	215,466	183,357	101,716	41,216	92,182	(34,535)	46,142	(11,794)	(3,726)	30,164

## Statement of Financial Position

### Assets

Cash and Cash Equivalents	92,132	130,871	73,226	140,903	116,978	138,046	306,766	208,621	223,666	420,903
Loans and Receivables	5,110,595	4,954,331	5,230,705	5,113,657	4,697,450	3,477,040	2,766,806	2,779,010	2,020,283	2,486,562
Lease Rentals Receivable	4,768,167	2,952,368	1,702,847	1,102,513	611,055	283,559	-	-	-	-
Financial Investments	532,667	374,591	444,939	442,595	282,269	268,211	243,177	201,844	200,000	200,000
Other Financial Assets	814	780	164,536	189,277	207,371	282,578	232,860	7,049	288,325	452,208
Investment in Subsidiary Companies	-	-	-	-	-	-	379,475	379,475	-	-
Intangible Assets	4,928	5,055	15,111	27,008	35,134	321,409	281,536	241,143	206,608	-
Other Assets	665,181	618,602	583,851	433,871	409,919	102,050	109,410	115,290	139,398	95,025
Total Assets	11,174,484	9,036,598	8,215,216	7,449,824	6,360,176	4,872,893	4,320,029	3,932,432	3,078,280	3,732,556

### Liabilities

Due to Banks	2,320,185	1,729,624	1,595,036	835,874	463,277	75,856	31,225	47,743	101,899	288,496
Due to Customers	4,729,097	4,551,945	5,101,976	5,385,342	4,624,855	3,563,700	3,070,417	2,776,239	2,165,002	2,691,252
Savings	1,300,813	1,245,293	1,536,303	1,561,061	1,554,619	1,607,045	1,585,566	1,484,222	-	-
Fixed Deposits	3,428,284	3,306,652	3,565,673	3,824,281	3,070,216	1,956,654	1,484,851	1,292,016	-	-
Other Non Financial Liabilities	596,809	282,552	99,221	79,668	84,070	165,765	96,909	53,842	93,923	125,820
Post Employment Benefit Liability	32,066	55,829	33,753	27,212	26,416	20,797	16,088	17,109	17,953	-
Other Liability	191,532	235,263	189,551	23,183	30,768	-	19,850	-	2,009	40,473
Total Liabilities	7,869,689	6,855,213	7,019,536	6,351,279	5,229,366	3,826,118	3,234,490	2,894,933	2,380,786	3,146,041

### Shareholders' Funds

Stated Capital	2,696,113	1,696,113	890,000	890,000	890,000	890,000	890,000	890,000	540,000	540,000
Reserves	608,682	485,270	305,679	208,546	240,810	156,775	195,539	147,499	157,494	46,515
Total Shareholders' Funds	3,304,795	2,181,385	1,195,679	1,098,546	1,130,810	1,046,775	1,085,539	1,037,499	697,494	586,515

### Other Information

Number of Staff	508	480	471	521	508	540	602	572	543	216
Number of Branches	51	30	30	30	30	30	30	30	30	30
Number of CSCs	-	21	21	21	21	22	28	32	32	32
Number of Gold Centers within the Branches	39	35	25	5	-	-	-	-	-	-
Profit Before Tax Per Employee	739	742	493	301	364	8	209	3	62	208
Profit After Tax Per Employee	424	382	216	79	181	(64)	77	(21)	(7)	140
Total Assets Per Employee	21,997	18,826	17,442	14,299	12,520	9,024	7,176	6,875	5,669	17,280
Employees Per Branch	7	6	7	7	7	8	8	7	6	6

For the Year ended 31st March	2021/22 Rs. (000)	2020/21 Rs. (000)	2019/20 Rs. (000)	2018/19 Rs. (000)	2017/18 Rs. (000)	2016/17 Rs. (000)	2015/16 Rs. (000)	2014/15 Rs. (000)	2013/14 Rs. (000)	2012/13 Rs. (000)
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## Capital Adequacy Ratio (%)

Tier I	-	-	-	-	20.19%	25.02%	32.00%	30.66%	29.13%	29.13%
Tier II	-	-	-	-	20.19%	25.02%	20.32%	18.93%	29.13%	29.13%
Tier I (w.e.f 1 July 2018)	29.17%	21.58%	12.99%	13.58%	-	-	-	-	-	-
Tier II (w.e.f 1 July 2018)	30.42%	21.80%	13.23%	13.98%	-	-	-	-	-	-

## Operating Result

Cost of Fund	8.24%	9.50%	11.30%	10.73%	9.55%	8.33%	8.64%	8.28%	7.00%	6.20%
Interest Spread	10.09%	9.00%	10.81%	10.96%	13.05%	13.02%	13.15%	12.86%	9.76%	9.26%
Net Interest Margin	12.67%	11.44%	12.21%	12.51%	14.61%	14.74%	31.74%	25.70%	16.14%	9.42%
Cost to Income	66.28%	70.82%	76.87%	83.18%	77.52%	84.19%	81.84%	91.36%	110.63%	71.10%
Staff Cost : Net Income	32.19%	33.40%	33.91%	36.87%	35.69%	44.32%	41.40%	50.00%	52.00%	35.30%

## Financial Indicators

Return on Interest Earning Assets	18.33%	19.00%	22.11%	21.69%	22.59%	21.36%	21.78%	21.14%	16.76%	15.46%
Portfolio Yield	18.90%	19.70%	23.36%	22.88%	23.89%	23.33%	31.74%	25.70%	23.21%	22.65%
Debit : Equity	213.30%	287.96%	560.10%	566.31%	449.95%	347.69%	285.72%	272.19%	325.01%	508.04%
Liquid Assets Ratio	10.51%	9.13%	11.41%	13.75%	13.75%	20.39%	26.20%	16.50%	30.00%	42.50%

## Assets Quality Indicators

Gross NPA Ratio	8.93%	9.98%	11.81%	9.41%	6.20%	8.90%	8.00%	5.00%	12.90%	31.90%
Net NPA Ratio	3.31%	4.21%	6.14%	4.67%	2.61%	3.40%	3.10%	2.80%	3.10%	18.40%
NPA to Assets	8.39%	9.28%	11.13%	8.92%	6.03%	8.00%	5.50%	3.70%	9.40%	28.50%
Provision to Advance	4.86%	5.66%	5.74%	5.08%	3.06%	5.60%	5.10%	3.10%	9.80%	16.50%
Provision Cover	54.40%	56.58%	48.58%	49.43%	44.10%	57.10%	63.00%	60.80%	76.00%	51.80%

## Investor information

Return on Assets (ROA)	2.13%	2.13%	1.30%	0.60%	1.64%	0.75%	1.12%	-0.34%	-0.11%	0.91%
Return on Equity (ROE)	7.85%	10.86%	8.87%	3.70%	8.15%	-3.24%	4.35%	-1.36%	-0.58%	5.20%
Equity to Assets	29.57%	24.14%	14.55%	14.75%	17.78%	21.48%	25.13%	26.38%	22.66%	15.71%
Net assets Per Share (Rs.)	22.09	21.43	17.71	16.27	16.75	15.51	16.08	15.37	12.92	10.86
Earnings Per Share (Rs.)	1.86	2.55	1.51	0.61	1.19	(0.51)	0.68	(0.19)	0.17	0.56
Shareholders' Fund to Deposit	69.88%	47.92%	23.44%	20.40%	24.53%	29.37%	37.10%	42.00%	29.20%	23.60%
Price earning ratio (P/E)	6.74	N/A								
Market Price per share	12.5	N/A								
Market Capitalisation	807,179	N/A								
Interest Cover	1.67	1.57	1.31	1.26	1.44	1.01	1.49	1.01	1.18	1.28
Dividend Per Share	0.50	-	-	-	0.50	-	-	-	-	-
Dividend Cover	2.88	-	-	-	2.73	-	-	-	-	-
Dividend Yield	0.04	N/A								
Dividend Payout	0.27	-	-	-	0.42	-	-	-	-	-

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	For the nine months ended		For the three months ended		For the year ended	
	31 Dec 2021	31 Dec 2020	31 Mar 2022	31 Mar 2021	31 Mar 2022	31 Mar 2021
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
	LKR	LKR	LKR	LKR	LKR	LKR
Income	1,282,010,481	1,227,632,526	648,398,797	515,857,547	1,930,409,278	1,743,490,073
Interest Income	1,227,805,454	1,174,434,023	594,509,734	410,310,617	1,822,315,188	1,584,744,640
Interest Expenses	(413,089,813)	(479,065,355)	(149,026,295)	(144,281,667)	(562,116,108)	(623,347,022)
<b>Net Interest Income</b>	814,715,641	695,368,668	445,483,439	266,028,950	1,260,199,080	961,397,618
Net Fee and Commission						
Income	37,564,500	27,090,700	26,022,770	8,765,302	63,587,270	35,856,002
Other Operating Income	16,640,526	26,107,803	27,866,293	96,781,628	44,506,819	122,889,431
<b>Total Operating Income</b>	868,920,668	748,567,171	499,372,502	371,575,880	1,368,293,170	1,120,143,051
Impairment Charges for						
Loans and Other Losses	(105,704,670)	(52,457,808)	(86,913,918)	(7,634,054)	(192,618,588)	(60,091,862)
<b>Net Operating Income</b>	763,215,997	696,109,363	412,458,585	363,941,826	1,175,674,582	1,060,051,189
<b>Operating Expenses</b>						
Personnel Expenses	(301,025,290)	(263,781,306)	(139,392,527)	(110,314,602)	(440,417,817)	(374,095,908)
Depreciation of PPE	(26,151,982)	(27,937,754)	(7,276,462)	(9,164,812)	(33,428,444)	(37,102,566)
Amortisation of Right of Use Assets	(47,784,883)	(49,412,838)	(16,608,229)	(13,531,725)	(64,393,112)	(62,944,563)
Amortisation of Intangible Assets	(2,303,866)	(7,735,212)	(643,635)	(2,320,623)	(2,947,501)	(10,055,835)
Other Operating Expenses	(182,399,269)	(158,316,665)	(76,824,899)	(61,387,713)	(259,224,168)	(219,704,378)
<b>Operating PBT on FS</b>	203,550,708	188,925,587	171,712,832	167,222,352	375,263,540	356,147,939
Tax on Financial Services	(64,560,793)	(59,514,138)	(41,992,114)	(29,848,167)	(106,552,907)	(89,362,305)
<b>Profit/(Loss) before Taxation</b>	138,989,915	129,411,449	129,720,718	137,374,185	268,710,633	266,785,634
Income Tax Expenses	(20,967,767)	(49,680,859)	(32,276,620)	(33,797,164)	(53,244,387)	(83,478,023)
<b>Profit/(Loss) for the Period</b>	118,022,148	79,730,590	97,444,098	103,577,021	215,466,246	183,307,611
<b>Other Comprehensive Income</b>						
Actuarial Gains/(Losses)						
on Defined Benefit Plans	-	-	3,420,601	(13,647,141)	3,420,601	(13,647,141)
Gain/(Loss) due to changes						
in Assumptions	-	-	32,703,154	(6,755,239)	32,703,154	(6,755,239)
Deferred Tax (Charge)/						
Reversal on above items	-	-	(4,334,851)	4,896,571	(4,334,851)	4,896,571
<b>Net Other Comprehensive</b>						
<b>Income not to be Reclassified</b>						
<b>to Profit or Loss</b>	-	-	31,788,904	(15,505,809)	31,788,904	(15,505,809)
Surplus from Revaluation of PPE	-	-	-	18,050,000	-	18,050,000
Deferred Tax Effect on Surplus						
from Revaluation of PPE	-	-	-	(4,332,000)	-	(4,332,000)
<b>Net Other Comprehensive</b>						
<b>Income not to be Reclassified</b>						
<b>to Profit or Loss</b>	-	-	-	13,718,000	-	13,718,000
<b>Total Comprehensive Income/</b>						
<b>(Expenses) for the Period</b>	118,022,148	79,730,590	129,233,002	101,789,212	247,255,150	181,519,802

Note

SDF listed in CSE on 14 December 2021 therefore SDF has submitted only 3rd and 4th Quarter financial statements in the CSE.

As at	3rd Quarter		4th Quarter	
	31 Dec 2021	31 Mar 2022	31 Mar 2021	31 Mar 2021
	Unaudited	Audited	Audited	Audited
	LKR	LKR	LKR	LKR
<b>Assets</b>				
Cash and Cash Equivalents	443,975,110	92,132,395	130,870,989	
Financial Investments	516,872,992	532,667,038	374,591,188	
Other Financial Assets	809,492	814,391	779,506	
Financial Assets at Amortised Cost - Loans and Receivables	4,938,051,474	5,110,595,093	4,954,331,169	
Financial Assets at Amortised Cost - Lease Rentals Receivables	4,023,149,953	4,768,166,996	2,952,368,025	
Other Non Financial Assets	117,928,803	162,122,503	99,226,178	
Investment Property	215,678,750	234,257,500	215,678,750	
Property, Plant and Equipment	146,495,343	139,267,592	160,884,369	
Right-of-use Lease Assets	131,240,211	129,533,191	142,812,343	
Intangible Assets	5,571,421	4,927,786	5,055,287	
<b>Total Assets</b>	10,539,773,549	11,174,484,484	9,036,597,804	
<b>Liabilities</b>				
Due to Banks and Other Institutions	2,144,469,402	2,320,184,829	1,729,624,110	
Financial Assets at Amortised Cost - Due to Customers	4,543,089,574	4,729,097,119	4,551,945,183	
Other Non Financial Liabilities	383,043,902	596,809,388	282,552,100	
Current Tax Liabilities	(3,952,683)	21,170,445	53,665,325	
Lease Liability	152,339,485	149,951,692	161,198,954	
Post Employment Benefit Liability	56,734,613	32,066,158	55,828,613	
Deferred Tax Liabilities	12,936,905	20,409,737	20,398,293	
<b>Total Liabilities</b>	7,288,661,198	7,869,689,368	6,855,212,577	
<b>Shareholders' Funds</b>				
Stated Capital	2,645,842,023	2,645,089,810	1,694,137,046	
Retained Earnings	444,678,092	456,019,819	326,655,945	
Reserves	160,592,236	203,685,486	160,592,235	
<b>Total Shareholders' Funds</b>	3,251,112,351	3,304,795,115	2,181,385,227	
<b>Total Liabilities and Shareholders' Funds</b>	10,539,773,549	11,174,484,484	9,036,597,804	

Note

SDF listed in CSE on 14 December 2021 therefore SDF has submitted only 3rd and 4th Quarter financial statements in the CSE.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME IN USD

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	2022 USD	2021 USD
<b>Income</b>	<b>6,456,218</b>	8,759,497
Interest Income	6,094,700	7,961,941
Interest Expenses	(1,879,987)	(3,131,768)
<b>Net Interest Income</b>	<b>4,214,713</b>	4,830,173
Net Fee and Commission Income	212,666	180,145
Other Operating Income	148,852	617,411
<b>Total Operating Income</b>	<b>4,576,231</b>	5,627,729
Impairment Charges for Loans and Other Losses	(644,209)	(301,908)
<b>Net Operating Income</b>	<b>3,932,022</b>	5,325,821
<b>Operating Expenses</b>		
Personnel Expenses	(1,472,969)	(1,879,501)
Depreciation of Property, Plant and Equipment	(111,801)	(186,408)
Amortisation of Right of Use Assets	(215,362)	(316,241)
Amortisation of Intangible Assets	(9,858)	(50,522)
Other Operating Expenses	(866,970)	(1,103,820)
<b>Operating Profit before Tax on Financial Services</b>	<b>1,255,062</b>	1,789,329
Tax on Financial Services	(356,364)	(448,967)
<b>Profit before Taxation</b>	<b>898,698</b>	1,340,362
Income Tax Expenses	(178,075)	(419,403)
<b>Profit for the Year</b>	<b>720,623</b>	920,959
<b>Other Comprehensive Income</b>		
Actuarial Gains/(Losses) on Defined Benefit Plans	11,440	(68,565)
Gain/(Loss) due to changes in Assumptions	109,375	(33,939)
Deferred Tax (Charge)/Reversal on above items	(14,498)	24,601
<b>Net Other Comprehensive Income not to be Reclassified to Profit or Loss</b>	<b>106,317</b>	(77,903)
Surplus from Revaluation of Property, Plant & Equipment	-	90,685
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment	-	(21,764)
<b>Net Other Comprehensive Income not to be Reclassified to Profit or Loss</b>	<b>-</b>	68,921
<b>Other Comprehensive Income for the Year, Net of Tax</b>	<b>106,317</b>	(8,982)
<b>Total Comprehensive Income/(Expenses) for the Year</b>	<b>826,940</b>	911,977

Exchange rate of US\$ was Rs 299.00 as at 31st March 2022 (Rs 199.04 as at 31st March 2021).

The Statement of Profit or Loss is solely for the convenience of Stakeholders (shareholders, investors, bankers and other users of Financial Statements) and do not form part of the Financial Statements.

# STATEMENT OF FINANCIAL POSITION IN USD

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	2022 USD	2021 USD
<b>Assets</b>		
Cash and Cash Equivalents	308,135	657,511
Financial Investments	1,781,495	1,881,989
Other Financial Assets	2,724	3,916
Financial Assets at Amortised Cost - Loans and Receivables	17,092,291	24,891,133
Financial Assets at Amortised Cost - Lease Rentals Receivables	15,947,047	14,833,039
Other Non Financial Assets	542,216	498,524
Investment Property	783,470	1,083,595
Property, Plant and Equipment	465,778	808,302
Right-of-use Lease Assets	433,221	717,506
Intangible Assets	16,481	25,398
<b>Total Assets</b>	<b>37,372,858</b>	45,400,913
<b>Liabilities</b>		
Due to Banks and Other Institutions	7,759,815	8,689,832
Financial Assets at Amortised Cost - Due to Customers	15,816,378	22,869,500
Other Non Financial Liabilities	1,996,019	1,419,573
Current Tax Liabilities	70,804	269,621
Lease Liability	501,511	809,882
Post Employment Benefit Liability	107,245	280,489
Deferred Tax Liabilities	68,260	102,483
<b>Total Liabilities</b>	<b>26,320,032</b>	34,441,381
<b>Shareholders' Funds</b>		
Stated Capital	8,846,454	8,511,541
Retained Earnings	1,525,150	1,641,157
Reserves	681,222	806,834
<b>Total Shareholders' Funds</b>	<b>11,052,826</b>	10,959,532
<b>Total Liabilities and Shareholders' Funds</b>	<b>37,372,858</b>	45,400,913
Commitments and Contingencies	14,348	38,635

Exchange rate of US\$ was Rs 299.00 as at 31st March 2022 (Rs 199.04 as at 31st March 2021).

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# CAPITAL ADEQUACY

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In June 2018, CBSL introduced a new Capital Adequacy Framework (CAF) revoking the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.02 of 2006. The new CAF is intended to foster a strong emphasis on risk management and to encourage improvements in LFC's risk assessment capabilities.

The existing Capital Adequacy direction was adopted in 2006 for LFCs in line with the Capital Adequacy Accord recommended by the Basel Committee on Banking supervision (BCBS) issued for banks in 1988. Under this direction risks were confined to credit risk and no capital requirements were applicable for market and operational risks. Therefore the new CAF provides for maintenance of Capital Adequacy Ratios (CARs) on a more risk sensitive focus covering credit and operational risk under basic approach available in Basel II Accord.

Item	2021/22 Rs.'000	2020/21 Rs.'000
Tier 1 Capital	3,229,233	1,998,518
Total Capital	3,367,770	2,019,232
Total Risk Weighted Amount	11,071,176	9,262,592
Risk Weighted Amount for Credit Risk	9,425,792	7,851,486
Risk Weighted Amount for Operational Risk	1,645,384	1,411,106
Company's tier 1 capital ratio %	29.2	21.6
Regulatory minimum tier 1 ratio %	6.5	6.5
Company's total capital ratio %	30.5	21.8
Regulatory minimum total capital ratio %	11.5	10.5
Tier I capital	3,234,161	2,056,786
Stated capital	2,696,113	1,694,137
Non-cumulative, Non-redeemable Preference Shares		
Reserve fund	114,851	104,077
Audited retained earnings/(losses)	437,317	326,656
(less) Revaluation gains/surplus of investment property	14,120	68,084
General and other disclosed reserves		
Current year's profit (losses)		
Adjustments to Tier I capital	4,928	58,268
Goodwill (net)		
Other intangible assets (net)	4,928	5,055
Other Comprehensive Income losses		
Deferred tax assets (net)		
Shortfall of the cumulative impairment to total provisions and interest in suspense	53,213	53,213
50% of investment in banking and financial subsidiary companies		
50% of investment in other banking and financial institutions		
Shortfall of capital in financial subsidiaries		
SLFRS 9 day one impact adjustment		
Tier I Capital (after adjustments)	1,998,518	1,998,518
Tier 2 Capital	20,714	20,714
Instruments qualified as Tier 2 capital		
Revaluation gains	20,714	20,714
General provisions/ Collective impairment allowances	117,822	
Eligible Tier 2 Capital	20,714	20,714
Total Adjustments to eligible Tier 2 Capital	-	-
50% of investment in banking and financial subsidiary companies		
50% of investment in other banking and financial institutions		
Eligible Tier 2 Capital after adjustments	138,356	20,714
<b>Total Capital</b>	<b>3,367,770</b>	<b>2,019,232</b>

# BRANCH NETWORK

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Region	Branch	Telephone No.	Branch Address	Office E-mail
Western	Delgoda	011-5941666	No. 358/3, New Kandy Road, Delgoda.	delgodacsc@sdf.lk
	Pasyala	033-5112666	No. 178/8/3, Usaviya wattha, Pasyala.	pasyalacsc@sdf.lk
	Panadura	038-5111666	No. 322, Galle Road, Panadura.	panadura@sdf.lk
	Homagama	011-5944666	No. 119/1/1, Katuwana Road, Homagama.	homagama@sdf.lk
	Piliyandala	011-5945666	No. 24/A, Vidyala mawatha, Piliyandala.	piliyandalacsc@sdf.lk
Southern	Galle	091-5111666	No. 26 Sri Dewamiththa Road, Galle.	galle@sdf.lk
	Ambalantota	047-5111666	No. 150, Main Street, Ambalantota.	ambalantota@sdf.lk
	Matara	041-5111666	No. 372/C, Anagarika Dharmapala Mawatha, Pamburana, Matara.	matara@sdf.lk
	Akuressa	041-5114666	No. 93, Matara Road, Akuressa.	akuressa@sdf.lk
	Karadeniya	091-5112666	4th Mile Post, Maha Edanda, Karadeniya.	karadeniyacsc@sdf.lk
	Kamburupitiya	041-5116666	No.07, Akuressa Road, Kamburupitiya	kamburupitiyacsc@sdf.lk
Uva	Monaragala	055-5111666	No. 304/1, In front of Bank of Ceylon, Kachcheriya Junction, Monaragala.	buttala@sdf.lk
	Ampara	063-5111666	No. 20, 6th Lane, Main Street, Ampara.	ampara@sdf.lk
	Badulla	055-5111666	No. 377, Passara Rd, Viharagoda, Badulla.	badulla@sdf.lk
	KatHaragama	047-5112666	No. 41 B New Town Kataragama.	kataragamacsc@sdf.lk
	Medagama	055-5113666	Near by bus stand, Bibile Road, Medagama.	medagamacsc@sdf.lk
	Mahiyanganaya	055-5112666	No. 112/8, Girandurukotte Road, Mahiyanganaya.	mahiyanganacsc@sdf.lk
North	Vavuniya	024-5111666	No. 58, 1st Cross Street, Vavunia.	vavniya@sdf.lk
	Jaffna	021-5111666	No. 62/20A, Stanly Road, Jaffna.	jaffna@sdf.lk
	Mannar	023-5111666	No. 4/10, Convent Road, Sinnakadai, Mannar.	mannarcsc@sdf.lk
Sabaragamuwa	Godakawela	045-5112666	No. 58 G1/1, Main Street, Godakawela	Godakawela@sdf.lk
	Balangoda	045-5111666	No.133/A, Barnes Ratwatte Mawatha, Balangoda.	balangoda@sdf.lk
	Ratnapura	045-5113666	No. 177, Main Street, Rathnapura.	ratnapura@sdf.lk
	Kegalle	035-5111666	No. 245, Colombo Road, Kegalle.	kegalle@sdf.lk
	Ruwanwella	036-5111666	No.122, Main Street, Ruwanwella.	ruwanwellacsc@sdf.lk

Region	Branch	Tepehone No.	Branch Address	Office E-mail
Rejarata	Kebithigollewa	025-5112666	Horewpathana Rd, Kebithigllewa.	kebithigollewa@sdf.lk
	Thambuttegama	025-5114666	No. 137, Anuradhapura Road, Rejina Junction, Thambuttegama.	tambuttegacsc@sdf.lk
	Parakramapura	025-5115666	Kodithuwakku Building, Padavi Road, Parakramapura.	parakkramapuracsc@sdf.lk
	Anuradhapura	025-5111666	No. 61 Market Place Anuradhapura.	anuradapura@sdf.lk
	Kekirawa	025-5113666	No. 27, Yakkala Road, Kekirawa.	kekirawacsc@sdf.lk
Central	Matale	066-5111666	No. 630, Trincomalee Street, Mathale.	matale@sdf.lk
	Kandy	081-5111666	No.102, Yatinuwara street, Kandy.	kandy@sdf.lk
	Nawalapitiya	054-5111666	No. 100/1, Gampola Road, Nawalapitiya.	nawalapitiyacsc@sdf.lk
	Digana	081-5112666	No. 15/1, New Town., Rajawella, Digana.	diganacsc@sdf.lk
	Hatton	051-5111666	No. 03,Dimbula Road, hatton.	hattoncsc@sdf.lk
	Nuwara eliya	052-5111666	No. 40/1(46/25) ,Lawson Street ,Nuwara Eliya	nuwaraeliya@sdf.lk
Estern	Trincomalee	026-5111666	No. 31/B, Kandy road,Linganagar, Trincomalee.	trinco@sdf.lk
	Batticaloa	065-5111666	No. 132, Trincomalee Road, Batticalo.	batticaloa@sdf.lk
	Kalmuna	067-5111666	No. 218,Batticalo Road,Kalmunai.	kalmunaicsc@sdf.lk
North Western Region	Kuliyapitiya	037-5111666	No. 82, Kurunagala Road, Kuliyapitiya.	kuliyapitiya@sdf.lk
	Puttalam	032-5113666	No. 116,Kurunegala Road, Puttalam.	puttalam@sdf.lk
	Chilaw	032-5111666	No. 66, Kurunegala Road, Chilaw.	chilaw@sdf.lk
	Gampaha	033-5111666	No. 128, Muthugala Building, Colombo Road, Gampaha.	gampaha@sdf.lk
	Nattandiya	032-5112666	Maravila Road, Nathandiya.	nathandiyacsc@sdf.lk
	Minuwangoda	033-5113666	No. 67 A Colombo Road, Minuwangoda.	minuwangodacsc@sdf.lk
North Central Region	Dambulla	066-5111666	No. 707, Anuradhapura Road, Dambulla.	dambulla@sdf.lk
	Dehiattakandiya	027-5113666	No. 62/1E, New Town, Dehiattakandiya.	dehiattakandiyacsc@sdf.lk
	Kurunegala	037-5112666	No. 24,Mihindu Mawatha,Kurunagala.	kurunegala@sdf.lk
	Medirigiriya	027-5111666	No. 18, Main Street, Medirigiriya.	medirigiriya@sdf.lk
	Polonnaruwa	027-5112666	Infortn of Police station,Kaduruwela.	polonnaruwa@sdf.lk
Head Office	Borella	011-5942666	No. 155/A Dr. Danister De Silva Mawatha Colombo 08.	borella@sdf.lk

## A

### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

### Accrual Basis

Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

### Amortisation

Amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

### Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

### Available for Sale Financial Assets

All assets not in the three categories namely, loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

## C

### Cash Basis

Recognizing the effects of transactions and events when receipt or payment of cash or cash equivalent occurs.

### Capital Adequacy Ratio

The relationship between capital and risk-weighted assets as defined in the framework

developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

### Capital Funds

Shareholders' funds net of statutory reserves

### Cash Equivalents

Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Cash flows

Inflows and outflows of cash and cash equivalents.

### Collective Impairment Provision

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

### Commitments

Credit facilities approved but not yet utilised by the customers as at the date of the statement of financial position.

### Contingencies

A condition or situation existing on the reporting date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

### Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

### Cost to Net Income Ratio

The operating expenses, including tax on financial services but excluding the impairment (charge)/reversal for loans and other losses, expressed as a percentage of net income.

### Cost of Funds

Interest expenses expressed as a percentage of average interest bearing liabilities.

### Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

### Credit Risk

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

### Customer Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

## D

### Debt to Equity

Interest bearing liabilities expressed as a percentage of average equity attributable to the equity holders of the Company.

### Debt to Equity (Excluding Deposits)

Interest bearing liabilities excluding public deposits expressed as a percentage of average equity attributable to the equity holders of the company.

### Deferred Tax

Sum set aside for tax in the Financial Statements for taxation that may become payable/ receivable in a financial year other than

the current financial year. It arises because of temporary differences between tax rule and accounting conventions.

### Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

### De recognition

The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

### Discount rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value

## E

### Earnings per Share

Profits attributable to ordinary shareholders divided by the ordinary shares in issue.

### Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

### Effective Interest Rate (EIR)

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

### Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

### Efficiency Ratio

Operating expenses expressed as a percentage of income; interest income plus other income

## Eligible Deposits

Customer Deposits after deducting for loans outstanding balances taken against the security of deposits and deposits balances of directors and KMPs.

## Exposure

A claim, contingent claim or position which carries a risk of financial loss.

## F

### Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transactions.

### Fair Value through Profit or Loss

A financial asset/liability. Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking or a derivative (except for a -derivative that is a financial guarantee contract)

### Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

### Financial Liability

A contractual obligation to deliver cash or another financial asset to another entity.

### Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

## Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

## Funding Mix

The total of shareholders' funds, customer deposits and borrowings from banks and other institutions

## G

### Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

### Gross NPA Ratio

The total of the non-performing loans and receivables and non-performing Lease Rentals Receivables expressed as a percentage of the total of average loans and receivables and average Lease Rentals Receivables portfolio. In calculating gross NPA ratio the age of the re-schedule contracts are calculated based on post re-schedulement age.

### Gross NPA Ratio (with reschedulements)

The total of the non-performing loans and lease receivables expressed as a percentage of average loans and lease receivables portfolio. In calculating gross NPA ratio, the age of the rescheduled contracts are calculated based on the pre and post rescheduled age.

### Gross Portfolio

The total of rental installments outstanding and the un-due capital receivable of the advances granted to customers under leasing, loans and other facilities

## H

### HTM (Held to Maturity)

Investments Non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold till maturity.

## I

### Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

### Impaired Loans

Loans where the Company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

### Intangible Asset

An identifiable non-monetary asset without physical substance.

### Interest Margin

Net interest income expressed as a percentage of average interest earnings assets

### Interest Spread

This difference between the average interest rate earned on the interest earning assets and the average interest rate paid on the interest bearing liabilities.

### Impairment Allowance for Loans and Other Losses

Amount set aside against possible losses on loans, lease rentals and advances as a result of such facilities becoming partly or wholly uncollectible.

## K

### Key Management Personnel

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

## L

### Lending

Lending represents the disbursements of the Company during the year under review

### Lending Base

This represents Loans and Lease Receivables of the Company

### Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with banks and treasury bills & bonds.

### Liquidity Assets Ratio

Liquid assets expressed as a percentage of average deposits liability and short term liabilities.

### Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

### Loans Payable

Financial liabilities, other than short term trade payables on normal credit terms.

### Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

## M

### Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

## N

### Net Assets per Share

Equity attributable to the equity holders of the Company divided by the average number of ordinary share in issue during the year.

### Net Interest Income (NII)

The difference between incomes earned from interest earning assets and cost incurred on financial instrument/ facilities used for funding the interest earning assets.

### Net NPA Ratio

The total of non-performing loans and lease receivables net of accumulated impairment charge expressed as a percentage of average loans and lease receivables portfolio net of impairment charge. In calculating net NPA ratio, the age of the rescheduled contracts are calculated based on the post rescheduled age.

### Net NPA Ratio (with reschedulements)

The total of non-performing loans and lease receivables net of accumulated impairment charge expressed as a percentage of average loans and lease receivables portfolio net of impairment charge. In calculating net NPA ratio, the age of the rescheduled contracts are calculated based on the pre and post rescheduled age.

### Net Portfolio

The total of rental installments outstanding and the un-due capital receivable of the advances granted to customers under leasing, loans and other facilities net of impairment charge for loans and other losses.

## Non-performing Advances

Rentals receivables in arrears equals to six rentals or more than six rentals have been categorised as non-performing.

## NPA to Assets

The total of non-performing loans and lease receivables expressed as a percentage of average total asset

## O

### Operational Risk

The risk of loss incurring from inadequate or failed internal processes, people and systems or from external events.

### Operating Expense Ratio (Opex Ratio)

Operating expenses expressed as a percentage of average of gross loan portfolio

## P

### Parent

An entity that controls one or more subsidiaries.

### Portfolio Yield

Interest earned on loans and lease receivables expressed as a percentage of average gross loans and lease receivables.

### Provision

Amounts set aside against possible losses on net receivable of facilities granted to customers, as a result of them becoming partly or wholly uncollectible.

### Provision Cover

Impairment charge for loans and other losses expressed as a percentage of the total of non-performing loans and lease receivables before discounting for allowance for impairment charge on non-performing loans and lease receivables.

## R

### Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Return on Assets (ROA)

Profit after Tax (PAT) expressed as a percentage of the average assets

### Return on Interest Earning Assets

Interest income expressed as a percentage of average Interest earning assets.

### Risk Weighted Assets

The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk-weighted factors.

### Return on Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average equity attributable to the equity holders of the company.

## S

### Shareholders' Funds

This consists of issued and fully paid up ordinary shares, redeemable preference shares and other reserves.

### Shareholder Funds to Deposits

Equity attributable to the equity holders of the company expressed as a percentage of average deposits liability.

### Staff Cost to Net Income

Staff cost expressed as a percentage of total operating income.

## Stated Capital

All amounts received by the Company or due and payable to the Company- (a) in respect of the issue of shares, (b) in respect of calls on shares.

## Statutory Reserve Fund

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003.

## Subsidiary

An entity including an unincorporated entity such as a partnership, which is controlled by another entity known as the Parent.

## Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Company

## T

### Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

### Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term-debts.

## V

### Value Addition

Value of wealth created by providing leasing and other related services considering the cost of providing such services.

# LIST OF ABBREVIATIONS

<b>AFS</b>	Available for Sale
<b>AGM</b>	Annual General Meeting
<b>ALCO</b>	Assets and Liabilities Management Committee
<b>AM</b>	Acting Manager
<b>ASPI</b>	All Share Price Index
<b>ATM</b>	Automated Teller Machine
<b>AWDR</b>	Average-Weighted Deposit Rate
<b>AWFDR</b>	Average-Weighted Fixed Deposit Rate
<b>AWPLR</b>	Average Weighted Prime Lending Rate
<b>BN</b>	Billion
<b>BOD</b>	Board of Directors
<b>CAR</b>	Capital Adequacy Ratio
<b>CBSL</b>	Central Bank of Sri Lanka
<b>CDS</b>	Central Depository System
<b>CDM</b>	Cash Deposit Machine
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CRM</b>	Customer Relationship Management
<b>CSC</b>	Customer Service Centres
<b>CSE</b>	Colombo Stock Exchange
<b>CSR</b>	Corporate Social Responsibility
<b>EIR</b>	Effective Interest Rate
<b>EPF</b>	Employees' Provident Fund
<b>EPS</b>	Earnings per Share
<b>ERP</b>	Enterprise Resource Planning
<b>ESC</b>	Economic Service Charge
<b>ETF</b>	Employees' Trust Fund
<b>FVTPL</b>	Fair Value through Profit or Loss
<b>GDP</b>	Gross Domestic Product
<b>GRI</b>	Global Reporting Initiative
<b>HFT</b>	Held for Trading
<b>HODs</b>	Head of Departments
<b>HTM</b>	Held to Maturity
<b>ICASL</b>	The Institute of Chartered Accountants of Sri Lanka
<b>IFA</b>	Investment Fund Account
<b>IFRS</b>	International Financial Reporting Standard
<b>IIRC</b>	International Integrated Reporting Council
<b>IRMC</b>	Integrated Risk Management Committee
<b>ISO</b>	International Standard Organisation
<b>IT</b>	Information Technology
<b>KMP</b>	Key Management Personnel
<b>KPIs</b>	Key Performance Indicators

<b>KRIs</b>	Key Risk Indicators
<b>L&amp;R</b>	Loans and Receivables
<b>LRA</b>	Lanka Rating Agency
<b>LCB</b>	Licensed Commercial Bank
<b>LFC</b>	Licensed Finance Company
<b>LKAS</b>	Lanka Accounting Standards
<b>LKR</b>	Sri Lankan Rupees
<b>LTV</b>	Loan to Value
<b>MN</b>	Million
<b>M3</b>	Cubic Meter
<b>MOU</b>	Memorandum of Understanding
<b>MSME</b>	Micro, Small and Medium Enterprises
<b>NBFI</b>	Non-Bank Financial Institutions
<b>NBT</b>	Nation Building Tax
<b>NPA</b>	Non-Performing Advances
<b>NII</b>	Net Interest Income
<b>NIM</b>	Net Interest Margin
<b>NPL</b>	Non-Performing Loans
<b>OCI</b>	Other Comprehensive Income
<b>PAT</b>	Profit after Tax
<b>PAYE</b>	Pay As You Earn
<b>PER</b>	Price Earnings Ratio
<b>PLC</b>	Public Limited Company
<b>ROA</b>	Return on Assets
<b>ROCE</b>	Return on Capital Employed
<b>ROE</b>	Return on Equity
<b>SDF</b>	Sarvodaya Development Finance PLC
<b>SEC</b>	Securities and Exchange Commission
<b>SLC</b>	Specialised Leasing Company
<b>SLA</b>	Statutory Liquid Assets
<b>SLAR</b>	Statutory Liquid Asset Ratio
<b>SLAS</b>	Sri Lanka Accounting Standard
<b>SLFRS</b>	Sri Lanka Financial Reporting Standard
<b>SLIPS</b>	Sri Lanka Inter-Bank Payment System
<b>SME</b>	Small and Medium Enterprises
<b>SSS</b>	Sarvodaya Shramadana Society
<b>UOM</b>	Unit of Measurement
<b>USD</b>	US Dollar
<b>VAR</b>	Value at Risk
<b>VAT</b>	Value Added Tax
<b>WHT</b>	Withholding Tax

# THEME SONG OF SDF

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ඉතිරි කොටස - රඳවා තැබීමට  
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පබැඳුම - ආචාර්ය ඒ ඒ ආර්යරත්න  
සංගීතය - රෝහණ විරසිංහ  
ගායනය - අමරසිරි පීරිස්

# CORPORATE INFORMATION

GRI 2-1

## NAME OF THE COMPANY

Sarvodaya Development Finance PLC

## LEGAL FORM

Public Quoted Company Incorporated in Sri Lanka under the Companies Act No. 7 of 2007.

A Licensed Finance Company under the Finance Business Act No. 42 of 2011.

A registered Financed Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.

The Company was admitted to the official List of the Colombo Stock Exchange on 14th December 2021.

## PRINCIPAL ACTIVITIES

The Company provides a comprehensive range of financial services encompassing Acceptance of Fixed Deposits, Savings, Providing Finance Lease, SME Loans, Gold Loans, Personal Loans, Other Credit Facilities, Digital Financial Services and Value-Added Services.

## COMPANY REGISTRATION NUMBER

PB 3795 (Before Listing)  
PQ 00251293  
Central Bank Registration No.  
047

## TAX PAYER IDENTITY NUMBER (TIN)

134037954

## REGISTERED OFFICE & HEAD OFFICE

No. 155/A,  
Dr. Danister De Silva Mawatha,  
Colombo 08,  
Sri Lanka.  
Telephone No.: 011 5 444 666  
E-mail: info@sdf.lk  
Website: www.sarvodayafinance.lk

## ACCOUNTING YEAR-END

31st March

## NO OF BRANCHES

51

## COUNTRIES OF OPERATIONS

Sri Lanka

## CREDIT RATING:

"B+" (lka) stable by Fitch Ratings Lanka limited

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## BOARD OF DIRECTORS

Mr. Channa de Silva - Chairman  
Non-Indipended/Non-Executive  
Mr. Dammika Ganegama - Senior Director  
Independent/Non-Executive  
Mr. Masayoshi Yamashita - Director  
Non-Indipended/Non-Executive  
Mr. Chamindha Rajakaruna - Director  
Non-Indipended/Non-Executive  
Mr. Amrit CanagaRetna - Director  
Independent/Non-Executive  
Ms. Shehara De Silva - Director  
Independent/Non-Executive  
Mr. Nandhanan Senthilverl - Director  
Non-Indipended/Non-Executive  
Mr. Ramesh Schaffter- Director  
Non-Indipended/Non-Executive

## BAORD COMMITTEES OPERATING

Board Audit Committee  
Board Credit Committee  
Integrated Risk Management Committee  
Remuneration and Normination Committee  
Related Party Transaction Committee

## COMPANY SECRETARY

P W Corporate Secretarial (Pvt) Ltd  
No.3/17, Kynsey Road  
Colombo 08.

## EXTERNAL AUDITORS

M/s Ernst & Young  
Chartered Accountants,  
201, De Saram Place,  
Colombo 10.

## LEGAL ADVISER

Nithya Partners  
D. L. & F. De Saram

## BANKERS

Hatton National Bank PLC  
People's Bank  
Bank of Ceylon  
Seylan Bank PLC  
DFCC Bank PLC  
Commercial Bank PLC  
National Development Bank PLC  
Sanasa Development Bank PLC  
Cargills Bank PLC

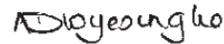
# NOTICE OF MEETING

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NOTICE IS HEREBY GIVEN that the twelfth (12th) Annual General Meeting of Sarvodaya Development Finance PLC will be held as a Hybrid Meeting (hybrid of physical and electronic means) on 29th June, 2022 centered at the Vishwa Samadhi Conference Hall, Sarvodaya Headquarters, No. 98, Rawatawatta Road, Moratuwa at 10.00 a.m. for the following purposes:

- To receive and consider the Annual Report of the Board of Directors on the affairs of Company and the Financial Statements for the year ended 31st March 2022 and the Report of the Auditors thereon.
- To re-appoint Mr. Masayoshi Yamashita who retires by rotation in terms of Article 85 of the Articles of Association, as a Director of the Company.
- To re-elect Mr. S. S. N. Senthilvel who retires by rotation in terms of Article 92 of the Articles of Association, as a Director of the Company
- To re-appoint Messrs Ernst & Young, Chartered Accountants as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.
- To authorize the Directors to determine donations for the year ending 31st March 2023 and up to the date of the next Annual General Meeting.

By Order of the Board  
**SARVODAYA DEVELOPMENT FINANCE PLC**



**P W CORPORATE SECRETARIAL (PVT) LTD**  
Secretaries  
25 May 2022.

At Colombo

**Note:**  
A shareholder entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote instead of him/her. A Proxy need not be a member of the Company. A Form of Proxy is enclosed for this purpose. The completed form of Proxy should be deposited at the Registered Office of the Company, not less than forty-eight (48) hours before the time fixed for the commencement of the Meeting.

# FORM OF PROXY

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I/We\* .....  
of .....  
being a shareholder / shareholders\* of Sarvodaya Development Finance PLC hereby appoint:  
..... of  
.....or failing him/her\*

- |                               |                 |
|-------------------------------|-----------------|
| Mr. Channa de Silva           | or failing him* |
| Mr. Dammika Ganegama          | or failing him* |
| Mr. Masayoshi Yamashita       | or failing him* |
| Mr. Chamindha Rajakaruna      | or failing him* |
| Mr. Amrit CanagaRetna         | or failing him* |
| Ms. Shehara de Silva          | or failing him* |
| Mr. S. S Nandhanan Senthilvel | or failing him* |
| Mr. Ramesh Schaffter          |                 |

as my/our\* Proxy to represent me/us\* to speak and to vote on my/our\* behalf at the Annual General Meeting of the Company to be held on 29th day of June 2022 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting.

	FOR	AGAINST
1) To receive and consider the Annual Report of the Board of Directors along with the Financial Statements of the Company for the year ended 31 March 2022		
2) To re-appoint Mr. Masayoshi Yamashita who retires by rotation in terms of Article 85 of the Articles of Association, as a Director of the Company		
3) To re-elect Mr. S. S. N. Senthilvel who retires by rotation in terms of Article 92 of the Articles of Association, as a Director of the Company		
4) To re-appoint Messrs Ernst & Young, Chartered Accountants as the Auditors and to authorize the Directors to determine their remuneration.		
5) To authorize the Directors to determine donations for the year ending 31st March 2023 and up to the date of the next Annual General Meeting.		

In witness my/our hands this ..... day of ..... Two Thousand and Twenty Two.

.....  
Signature

- Notes:** 1. A Proxy need not be a shareholder of the Company  
2. Instructions as to completion appear on the below.  
\* Please delete what is inapplicable.

# FORM OF PROXY

## INSTRUCTIONS FOR COMPLETION

1. Kindly perfect the Form of Proxy by filling in legibly your full name, address and the National Identity Card number and by signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Secretaries, No.3/17, Kynsey Road, Colombo 08, 48 hours before the date of Annual General Meeting.
3. If you wish to appoint a person other than the Chairman or a Director of the Company as your proxy, please insert the relevant details at the space provided (above the names of the Board of Directors) on the Proxy Form.
4. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the Form of Proxy for registration if such Power of Attorney has not already been registered with the Company.
5. In the case of a Company/ Corporation, the Proxy must be executed in accordance with the Articles of Association/Statute.





**SARVODAYA DEVELOPMENT FINANCE PLC**  
No. 155/A, Dr. Danister De Silva Mawatha, Colombo 08.  
Telephone No.: 011 5 444 666 | Fax No.: 011 2 667 411  
E-mail: [info@sdf.lk](mailto:info@sdf.lk) | Website: [www.sarvodayafinance.lk](http://www.sarvodayafinance.lk)